



BPC Policy No. 115

SUBJECT: GUIDELINES FOR PRUDENT INVESTMENTS

PURPOSE: To define the District's investment program objectives and to establish policies and procedures for the prudent investment of the District's cash.

POLICY STATEMENT:

1.0 INTRODUCTION

It is the policy of the San Diego Unified Port District (the District) to invest public funds in a manner that will provide the highest security of the funds under management while meeting the daily cash flow demands of the District. The investment policies and practices of the District are based upon prudent money management and conform to all state and local statutes governing the investment of public funds.

This policy also addresses risk management because risk management is an integral part of managing a fixed income portfolio. To focus only on maximizing return is imprudent; therefore, policy issues will be directed to limiting the investment portfolio's exposure to each issue and issuer of debt, and criteria for establishing minimum credit requirements that firms must have in order to effect security transactions with the District.

2.0 SCOPE

This investment policy applies to all the District's investment activities, except for the Employees Retirement and Deferred Compensation funds, which are administered separately. The financial assets of all other District funds shall be administered in accordance with the provisions of this policy. These funds are accounted for in the District's Comprehensive Annual Financial Report and include:

2.1 Funds

2.1.1 General Fund

2.1.2 Capital Outlay Fund

2.1.3 Any new fund created by the Board of Port Commissioners or operation of law, unless specifically exempted.

3.0 PRUDENCE

Persons authorized to make investment decisions for the District are trustees and therefore fiduciaries subject to the prudent investor standard.

3.1 When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

3.2 Investment officials acting in accordance with written procedures and investment policy and exercising due diligence shall be relieved of personal responsibility of an individual security's credit risk or market price changes, provided deviation from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 OBJECTIVES

The primary objectives, in priority order, of the District's investment activities shall be:

4.1 **Safety of principal:** Safety of principal is the District's foremost objective. To accomplish this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Each investment transaction shall seek to ensure that capital losses are avoided, whether from issuer default, broker/dealer default, or erosion of market value. The District shall seek to preserve principal by mitigating credit risk and market risk.

4.1.1 Credit Risk is the risk of loss due to failure of the issuer to repay an obligation and shall be mitigated by investing in only the highest quality credits and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the District's cash flows.

4.1.2 Market risk is the risk of market value fluctuations due to overall changes in the general level of interest rates and shall be mitigated by structuring the portfolio so that securities mature at the same time major cash outflows occur, thereby eliminating the need to sell securities prior to their maturity; and, by prohibiting the taking of short positions, that is, selling securities that the District does not own.

4.1.3 It is explicitly recognized, however, that in a diversified portfolio occasional losses may occur and must be considered within the context of overall investment return.

4.2 **Liquidity:** The District's investment portfolio will be structured to provide sufficient liquidity to meet the operating requirements of the District.

4.3 **Return on investment:** State law requires that the objective of return on investment be subordinate to the objectives of safety and liquidity. Therefore, investment officials shall seek to achieve a return on the funds under their control throughout all economic cycles, taking into consideration the District's investment risk constraints and cash flow requirements.

5.0 **AUTHORITY TO INVEST FUNDS**

The monies entrusted to the District will be invested and actively managed. This function is viewed as a full-time responsibility. The authority to execute investment transactions shall be limited to the Treasurer and Deputy Treasurer. The Treasurer and Deputy Treasurer will observe, review, and react to the changing conditions that affect the investment portfolio. The Treasurer and Deputy Treasurer will meet on a regular basis to discuss current market conditions and future trends and how each of these affects the investment portfolio and the District. The Treasurer and Deputy Treasurer shall establish a system of controls to ensure compliance with the District's investment policy and to regulate the activities of subordinate officials.

6.0 **ETHICS AND CONFLICTS OF INTEREST**

Board Commissioners, District officers or District employees involved in the investment process shall refrain from any activity that could conflict with proper execution of the investment program, or which could impair the Treasurer's or Deputy Treasurer's ability to make impartial investment decisions. District staff involved with the investment process shall disclose to the Executive Director/President and Chief Executive Officer any material financial interest in financial institutions that conduct business with the District, and they shall further disclose any large personal financial and/or investment positions that could be related to the performance of the District's portfolio. Board Commissioners, District officials and District employees shall subordinate their personal investment transactions to those of the District, particularly with regard to the timing of purchases and sales.

7.0 **QUALIFIED DEALERS**

The District shall transact business only with commercial banks, savings and loans, and investment securities dealers. The dealers must be primary dealers regularly reporting to the Federal Reserve Bank of New York. Regional dealers that qualify under the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) will be

approved at the discretion of the Treasurer.

7.1 All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with an audited financial statement, proof of National Association of Security Dealers certification, trading resolution, proof of state registration, completed broker/dealer questionnaire, and certification of (a) having read the District's investment policy and depository contracts and (b) recommending and executing only transactions that comply with same. The Treasurer shall determine if they are adequately capitalized, make markets in securities appropriate to the District's needs, and are recommended by managers of portfolios similar to the District's.

7.2 An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the District invests.

7.3 The District shall at least annually send a copy of the current investment policy to all financial institutions and broker/dealers approved to do business with the District. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the District's investment policy and will recommend and execute only transactions suitable for and in compliance with the District's investment policy.

8.0 AUTHORIZED INVESTMENTS

The District is authorized by California Government Code Section 53600 et seq. to invest in the following types of securities, further limited herein:

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

8.2 **Obligations issued by United States Government Agencies** such as, but not limited to, the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Student Loan Marketing Association (SLMA) and the Tennessee Valley Authority (TVA). Although there is no percentage limitation of the dollar amount that can be invested in these issuers, the "prudent person" rule shall apply for any single agency name.

8.3 Bills of exchange or time drafts drawn on and accepted by a commercial bank,

otherwise known as **bankers acceptances** which are eligible for purchase by the Federal Reserve System, may not exceed 180 days to maturity or 40 percent of the market value of the portfolio. No more than 10 percent of the market value of the portfolio may be invested in banker's acceptances issued by any one bank.

8.4 **Commercial paper** of prime quality that is rated "A-1" or higher, or equivalent as Provided for by a nationally recognized statistical rating organization (NRSRO) and issued by a domestic corporation having assets in excess of \$500 million and having an A or its equivalent or higher rating on its long term debt as provided by an NRSRO Purchases of eligible commercial paper may not exceed 270 days to maturity. Purchases of commercial paper may not exceed 15 percent of the market value of the portfolio. No more than 10 percent of the market value of the portfolio may be invested in commercial paper issued by any one corporation. An additional 15 percent, or 30 percent of the market value of the portfolio, may be invested in eligible commercial paper only if the dollar-weighted average maturity of the entire amount does not exceed 31 days. "Dollar-weighted average maturity" means the sum of the amount of each outstanding commercial paper investment multiplied by the number of days to maturity, divided by the total amount of outstanding commercial paper.

8.5 **Negotiable certificates of deposit** (NCDs) issued by a nationally or state-chartered bank or a state or federal savings institution. Purchased NCDs may not exceed 30 percent of the market value of the portfolio and the maximum maturity date shall not exceed one year.

8.5.1 The Treasurer shall use a nationally recognized statistical rating organization (NRSRO), as designated by the Securities and Exchange Commission, for the qualitative and quantitative analysis of financial institutions.

8.5.2 The Treasurer shall specify minimum criteria for investment as derived from the evaluation service.

8.6 **Medium Term Notes** (MTNs) issued by corporations organized and operating within the United States. MTNs eligible for purchase shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. MTNs with an "A" rating shall be limited to 24 months maximum maturity; AA rated MTNs shall be limited to 36 months. The aggregate total of all purchased MTNs may not exceed 30 percent of the market value of the investment portfolio. No more than 10 percent of the market value of the portfolio may be invested in notes issued by any one corporation. Commercial paper holdings shall be considered when calculating the maximum percentage of any issuer name.

8.7 **Repurchase agreements** (RPAs) shall only be made with primary dealers of the Federal Reserve Bank of New York. The Public Securities Association master

Repurchase agreement shall be the District's master repurchase agreement.

8.7.1 The term of the agreement may not exceed one year.

8.7.2 The market value of the securities used as collateral for repurchase agreements shall be monitored daily by the Deputy Treasurer and will not be allowed to fall below 102 percent of the value of the repurchase agreement.

8.7.3 The market value of the securities that underlay the repurchase agreement shall be adjusted no less than quarterly.

8.7.4 In order to conform with provisions of the Federal Bankruptcy Code, which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be certificates of deposit, eligible banker's acceptances, or securities that are direct obligations of the United States government.

8.8 **Reverse Repurchase Agreements** (RRPAs) shall only be made with primary dealers of the Federal Reserve Bank of New York and are authorized when the security to be sold on reverse repurchase agreement has been owned and fully paid for a minimum of 30 days prior to sale, the earnings from the matching investment(s) are greater than or equal to the cost of the reverse(s), and the terms and conditions are otherwise favorable to the District. Reverse repurchase agreements may not exceed 60 days to maturity and the maturity of the security purchased with the proceeds of the reverse must coincide with the date of the expiry of the reverse. No more than 10 percent of the portfolio may be invested in reverse repurchase agreements.

8.9 **The Local Agency Investment Fund** (LAIF), established by the State Treasurer for the benefit of local agencies and identified under Government Code Section 16429.1, is authorized up to the maximum amount permitted by State law.

8.10 The District may place funds in **inactive deposits** with those banks having offices in San Diego County. Such deposits in each bank shall be limited to no more than five percent (5%) of the total assets of the bank. All deposits shall be secured in accordance with California Government Code § 53652 and the District shall not waive the maximum amount or any portion of deposit insurance for collateral purposes. No more than ten percent (10%) of the portfolio may be invested in this category since time deposits are not liquid. Further, in accordance with California Government Code § 53635, to be eligible to receive funds, a bank, savings association, federal association, or federally insured industrial loan company shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record in meeting the credit needs of California's communities,

including low-and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code.

8.11 The District may place funds in **shares of beneficial interest** issued by diversified management companies investing in the securities and obligations as authorized by California Government Code § 53601 subdivisions (a) to (l) inclusive. To be eligible for investment, these companies shall either:

8.11.1 attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or,

8.11.2 retain an investment adviser registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligation as authorized by California Government Code §53601 subdivision (a) to (m), inclusive and with assets under management in excess of five hundred million dollars (\$500,000,000).

8.11.3 The purchase price of shares of beneficial interest shall not exceed 20 percent of the portfolio's market value and no more than 10 percent of the portfolio's market value may be invested in shares of beneficial interest of any one mutual fund.

8.12 **Derivative securities** are those securities that derive their value from another asset or index, such as Treasury securities or the prime interest rate. A derivative security offers a yield higher than a comparable security because of the intrinsic risk associated with the security's imbedded option (e.g., an interest rate that floats off the prime rate versus a fixed interest rate). Investments in derivative securities shall be made using the prudent investor person standard and shall be limited to federal agency issues.

8.13 **Investment Trust of California** (CalTRUST), a Public Joint Powers Authority pooled investment program, created by local public agencies and authorized by Government Code sections 53601(p) and 53635. Investments in CalTRUST shall not exceed 30 percent of the portfolio's market value.

8.14 The District may place funds in **Certificates of Deposit** pursuant to California Government Code Sections 53601.8 and 53635.8. Purchases of Certificates of Deposit pursuant to Sections 53635.8 and subdivision (h) of Section 53601 shall not, in total, exceed 30 percent of the portfolio's market value.

8.15 In accordance with California Government Code Section 53601 (d), the District may place funds in **California State & Local Agency Obligations** or registered treasury notes or bonds of any other 49 United States in addition to California, including

bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California; provided that the obligations are rated AAA by a nationally recognized statistical-rating service organization (NRSRO).

8.16 Supranational Obligations issued in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO and shall not exceed 30 percent of the agency’s moneys that may be invested pursuant to this section.

9.0 PROHIBITED INVESTMENTS

Investments not described herein, including but not limited to, inverse floating rate notes, range notes, interest-only strips that are derived from a pool of mortgages, common stocks, and long-term corporate notes or bonds are prohibited from use in this portfolio. The District shall not invest any funds in any security that could result in zero- or negative-interest accrual if held to maturity, unless the security is issued by, or backed by, the United States government. This provision shall remain in effect only until January 1, 2026, and as of that date is repealed per statute.

Investments that exceed five years to maturity require authorization by the Board of Port Commissioners prior to purchase.

10.0 INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of the pool/fund is required prior to investing and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- A description of the eligible investment securities and a written statement of investment policy and objectives.
- A description of interest calculations and how interest is distributed and how gains and losses are treated.
- A description of how the securities are safeguarded, including settlement processes, and how often the securities are priced and the program is audited.
- A description of who may invest in the program, how often, what size deposit and withdrawals are allowed, and notification requirements pertaining to deposits or withdrawals.
- A schedule for receiving statements and portfolio holdings.
- A statement that indicates if reserves, retained earnings, etc. are utilized by the pool/fund.

— A fee schedule and when and how fees are assessed.

- A statement that indicates if the pool/fund is eligible for the deposit of bond proceeds and/or if the pool/fund will accept such proceeds.

A published prospectus that answers these questions may be used in lieu of the District questionnaire.

11.0 SAFEKEEPING OF SECURITIES

To protect against potential losses by the collapse of individual securities dealers, all securities owned by the District shall be held in safekeeping by a third party bank trust department acting as agent for the District under the terms of a custody agreement executed by the bank and the District. All securities will be received and delivered using standard **delivery-versus-payment** procedures.

12.0 MAXIMUM MATURITY

The portfolio's weighted average days to maturity shall be limited to a maximum of three years. The maximum maturity of any one security, unless otherwise restricted by Government Code, shall be limited to five years. Investments that exceed five years to maturity require authorization by the Board of Port Commissioners prior to purchase.

13.0 SELLING OR SWAPPING SECURITIES

13.1 The Treasurer has the authority to sell any security in the District's portfolio in order to take advantage of profitable market movements or for the purpose of raising cash. Any security that is sold at a loss will be recorded as such in the District's accounting system; all securities that are sold will be identified in the investment reports issued by the Treasurer.

13.2 A swap is the movement from one security to another and may be done for a variety of reasons, such as to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality. Losses or gains on security swaps shall be recorded as a completed sale and purchase in the District's accounting system.

14.0 PORTFOLIO ADJUSTMENTS

Should an investment percentage-of-portfolio limitation be exceeded due to an incident such as fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses. When no loss is indicated, the Treasurer shall consider reconstructing the

portfolio basing the decision in part on the expected length of time that the portfolio will be imbalanced.

15.0 PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return commensurate with the District's investment risk constraints and its anticipated cash flow requirements.

15.1 Benchmark Market Yield: The basis used by the Treasurer to determine whether market yields are being achieved shall be a comparison of the District's yield to maturity at month end to:

15.1.1 The month end yield to maturity of the State of California's Local Agency Investment Fund; and,

15.1.2 The average monthly yield of the Constant Maturity Treasury (CMT) whose duration most closely approximates the duration of the District's portfolio at month end.

Although the duration of either the LAIF portfolio or the CMT may not be exactly equal to the duration of the District's portfolio, the rationale for using these two benchmarks is to show whether the District's portfolio is following market trends with respect market yields.

16.0 REPORTING REQUIREMENTS

16.1 On a quarterly basis, the Treasurer shall render a report to the Executive Director/President and Chief Executive Officer, the Internal Auditor, and the Board of Port Commissioners.

16.1.1 The report shall be submitted within 30 days of the end of the quarter covered by the report.

16.1.2 The report shall include the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and moneys held by the District.

16.1.3 The report shall include a description of any funds, investments, or programs that are under the management of contracted parties.

16.1.4 The report shall also include a current market value as of the report date and identify the source of the valuation.

16.1.5 The report shall state compliance of the portfolio to the statement of investment policy, or the manner in which it is not in compliance.

16.1.6 The report shall state the District's ability to meet its budgeted expenditure requirements for the next six months, or to explain why sufficient money may not be available.

16.2 The report will consist of:

16.2.1 Portfolio Master Summary: A summary of the District's investment holdings. This report identifies, by investment type, book value (cost), percent of portfolio, average term, average days to maturity, and yield to maturity on a 360 day basis (bond equivalent yield) and 365 day basis (CD equivalent yield).

16.2.2 Investment Portfolio Details: A detailed accounting of the District's investment holdings by investment type. This report identifies each security by subsidiary investment number, issuer, purchase date, book value (cost), face value (par value), market value, stated rate (either interest rate or discount rate), yield to maturity on a 360- and 365- basis, maturity date and days to maturity. Additionally, this report identifies the average balance for each investment class.

16.2.3 Investment Activity Summary: A summary of the District's historic investment activity from the beginning of the fiscal year through the current reporting period. This report identifies, by month, the number of active investments, the total dollar amount invested, the yield to maturity on a 360- and 365- day basis, the number of securities purchased, the number of securities matured or sold, the average term, and the average days to maturity. The report concludes with averages of each reporting category.

16.2.4 Interest Earnings Summary: A summary of the portfolio earnings for the current month and fiscal year to date.

17.0 INTERNAL CONTROL

The development of internal controls is a function of management. The Treasurer and Deputy Treasurer shall establish an annual process of independent review by an external examiner.

18.0 INVESTMENT POLICY ADOPTION

This investment policy shall be reviewed annually and adopted by resolution to ensure its consistency with the District's objectives of preservation of principal, liquidity, rate of return, and the policy's relevance to current law and financial and economic trends. The Treasurer is responsible for maintaining guidance over this investment policy and ensuring that the District can adapt readily to changing market conditions and shall

submit to the Board of Port Commissioners any modification to the investment policy prior to implementation.

GLOSSARY OF TERMS

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered (that is, the price at which a firm will sell a security to an investor).

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

BASIS POINT: One one-hundredth of a percentage point (i.e., 0.01%).

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered for securities (that is, the price at which a firm will pay to purchase a security an investor owns).

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not take a position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

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

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

COMMERCIAL PAPER: An unsecured short-term promissory note issued by corporations or municipalities, with maturities ranging from 2 to 270 days.

CONSTANT MATURITY TREASURY: An index for a U.S. Treasury maturity that reflects the weekly or monthly average yield adjusted to a constant maturity. Yields on Treasury securities at "constant maturity" are interpolated by the U.S. Treasury from the daily yield curve, which is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. The CMT indexes are volatile and move with the market. They reflect the state of the economy and respond quickly to economic changes.

COUPON: (a) The annual rate of interest that bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free delivery). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be selling at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g., U.S. Treasury bills).

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

DURATION: A measurement of a bond's price volatility. It is the weighted-average term-to-maturity of the bond's cash flows, with the weights being the present value of each cash flow. Mathematically, duration is the first derivative of price with respect to yield.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals (e.g., small business firms, students, farmers, and farm cooperatives).

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which the Fed funds are traded. This rate is currently pegged by the Federal Reserve through open market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and 4,115 commercial banks (at December 31, 1994) that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA or VA mortgages. The term pass-throughs is often used to describe Ginnie Maes.

INVERSE FLOATING RATE NOTE: A debt security with an interest rate stated as a fixed rate minus an index. This calculation causes the rate on the inverse floater to move in the opposite direction of general interest rates. This instrument generally performs well in a declining interest rate environment but will lose value if rates rise.

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

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment. The State of California's pool is known as the Local Agency Investment Fund, or LAIF.

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

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase agreements and reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

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

MEDIUM-TERM NOTES: A class of debenture.

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

MORTGAGE POOL: A group of mortgages sharing similar characteristics in terms of class of property, interest rate, and maturity. Investors buy participations and receive income derived from payments on the underlying mortgages.

MUTUAL FUND: A fund operated by an investment company that raises money from shareholders and invests it in stocks, bonds, options, commodities, or money market securities. These funds offer investors the advantages of diversification and professional management.

OFFER: The price asked by a seller of securities. See also Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales

have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker/dealers, banks, and a few unregulated firms.

PRUDENT INVESTOR STANDARD: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state, the-so-called legal list. In other states, the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RANGE NOTE: A debt security with a varied interest payment that depends on the number of days the designated index falls within (or in some cases outside) an established range of interest rates. Should rates move beyond the range on either end, the investor faces the risk of a reduced, or zero, interest payment for the applicable interest period.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structure to compensate the buyer for this. Dealers use RP extensively to finance their positions. Exception: when the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

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

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRIP (Bonds): Brokerage-house practice of separating a bond into its principal and interest, which are then sold as zero coupon bonds.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (e.g., FHLB, FNMA, SLMA, etc.) and Corporations that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

SUPRANATIONAL OBLIGATIONS: Bonds and Notes issued by two or more international institutions with the purpose of promoting economic development for the member countries. Examples include The International Finance Corporation and The World Bank.

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

TREASURY BONDS: Long-term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one year to ten years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current

market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

RESOLUTION NUMBER AND DATE: 2020-061, dated June 23, 2020 (Supersedes BPC Policy No. 115, Resolution 2019-070; Resolution 2018-115, dated June 12, 2018; Resolution 2017-091, dated June 20, 2017, Resolution 2016-85, dated June 15, 2016; Resolution 2015-72, dated June 11, 2015; Resolution 2014-135, dated July 8, 2014; Resolution 2013-115, dated July 16, 2013; Resolution 2012-94, dated July 10, 2012; 2011-146, dated October 11, 2011; Resolution 2010-89, dated June 8, 2010; Resolution 2009-123, dated July 7, 2009, Resolution 2008-284, dated December 2, 2008, Resolution 2008-126, dated July 1, 2008, Resolution 2007-103, dated June 12, 2007; Resolution 2006-113, dated July 11, 2006; Resolution 2005-99, dated June 21, 2005; Resolution 2004-87, dated June 22, 2004; Resolution 2003-114, dated June 17, 2003; Resolution 2002-148, dated June 18, 2002; Resolution 2001-118, dated June 19, 2001; Resolution 2000-132, dated June 27, 2000; Resolution 99-151, dated June 22, 1999; Resolution 98-158, dated June 30, 1998; Resolution 97-115, dated June 17, 1997; Resolution 96-165, dated June 25, 1996; Resolution 95-242, dated July 25, 1995; Resolution 95-321, dated September 26, 1995; Resolution 86-23, dated January 14, 1986; Resolution 81-328, dated October 6, 1981; and Resolution 75-15, dated January 21, 1975)

RESOLUTION 2020-061

RESOLUTION AUTHORIZING THE REQUIRED ANNUAL ADOPTION OF BPC NO. 115, GUIDELINES FOR PRUDENT INVESTMENTS, WITH NO CHANGES FROM PRIOR YEAR

WHEREAS, the San Diego Unified Port District (District) is a public corporation created by the Legislature in 1962 pursuant to Harbors and Navigation Code Appendix I (Port Act); and

WHEREAS, Board of Port Commissioners (BPC) Policy No. 115, Guidelines for Prudent Investments, requires that this policy, which contains the District's investment policy, be submitted annually to the Board of Port Commissioners for review and adoption by resolution; and

WHEREAS, this policy is also updated for relevant legislative changes to California Government Code Section 53600 et seq. which details numerous requirements on how and where public funds may be invested; and

WHEREAS, the California Debt and Investment Advisory Commission (CDIAC), a State-sponsored commission which provides information and policy research for public fund investments to local public agencies, published a statutory update dated January 1, 2020 reflecting changes in the law with respect to public funds investments; and

WHEREAS, after research, analysis, and review of CDIAC's report on numerous legislative updates effective January 1, 2020, staff found that there were no approved changes to the local agency investment codes during the 2019 Legislative session that directly impact the District or require policy changes; and

WHEREAS, staff recommends the required annual adoption of BPC Policy No. 115, Guidelines for Prudent Investments, with no changes to the policy.

NOW, THEREFORE, BE IT RESOLVED by the Board of Port Commissioners of the San Diego Unified Port District hereby readopts BPC Policy No. 115, Guidelines for Prudent Investments, with no changes to the policy.

APPROVED AS TO FORM AND LEGALITY:
GENERAL COUNSEL

David Jones

By: Assistant/Deputy

2020-061

PASSED AND ADOPTED by the Board of Port Commissioners of the San Diego Unified Port District, this 23rd day of June 2020, by the following vote:

AYES: Bonelli, Merrifield, Moore, Valderrama, and Zucchet

NAYS: None.

EXCUSED: Castellanos, and Malcolm

ABSENT: None.

ABSTAIN: None.

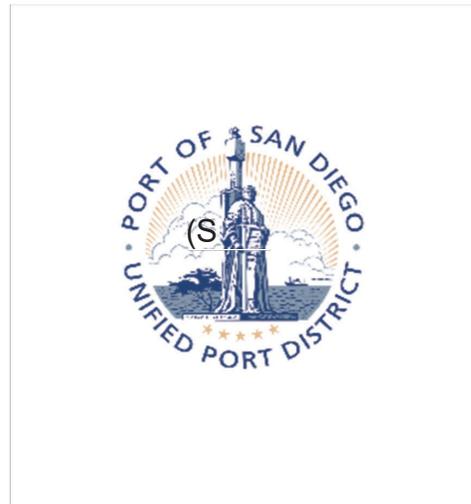
Ann Moore

Ann Y. Moore, Chair
Board of Port Commissioners

ATTEST:

Donna Morales

Donna Morales
District Clerk



Certificate Of Completion

Envelope Id: DFA9E84602CA417E844EDE151EDE0A38	Status: Completed
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Source Envelope:	
Document Pages: 2	Signatures: 3
Certificate Pages: 6	Initials: 0
AutoNav: Enabled	Stamps: 1
Envelopeld Stamping: Enabled	Envelope Originator:
Time Zone: (UTC-08:00) Pacific Time (US & Canada)	Gabby Livingston
	3165 Pacific Highway
	San Diego, CA 92101
	glivingston@portofsandiego.org
	IP Address: 207.215.153.162

Record Tracking

Status: Original 7/13/2020 10:59:18 AM	Holder: Gabby Livingston glivingston@portofsandiego.org	Location: DocuSign
Security Appliance Status: Connected	Pool: StateLocal	
Storage Appliance Status: Connected	Pool: San Diego Unified Port District	Location: DocuSign

Signer Events

Signer Events	Signature	Timestamp
David Jones dajones@portofsandiego.org Deputy General Counsel Security Level: Email, Account Authentication (None)	<i>David Jones</i> Signature Adoption: Pre-selected Style Using IP Address: 99.65.99.57	Sent: 7/13/2020 11:02:20 AM Viewed: 7/14/2020 7:55:37 AM Signed: 7/14/2020 7:56:09 AM

Electronic Record and Signature Disclosure:

Accepted: 7/14/2020 7:55:37 AM
ID: 19a5f944-faba-4b0e-9d88-03f44d530b22

Ann Moore amoore@nmlawfirm.com Security Level: Email, Account Authentication (None)	<i>Ann Moore</i> Signature Adoption: Pre-selected Style Using IP Address: 68.101.176.8	Sent: 7/14/2020 7:56:15 AM Viewed: 7/16/2020 11:56:11 AM Signed: 7/16/2020 11:56:18 AM
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Electronic Record and Signature Disclosure:

Accepted: 7/16/2020 11:56:11 AM
ID: 0965a1fd-c87d-4f0e-94bd-00c3084ecbcd

Donna Morales dmorales@portofsandiego.org District Clerk San Diego Unified Port District Security Level: Email, Account Authentication (None)	<i>Donna Morales</i> Signature Adoption: Pre-selected Style Using IP Address: 70.95.190.9 Signed using mobile	Sent: 7/16/2020 11:56:21 AM Viewed: 7/17/2020 5:07:52 AM Signed: 7/17/2020 5:08:35 AM
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Electronic Record and Signature Disclosure:

Not Offered via DocuSign

Gabby Livingston glivingston@portofsandiego.org Document Management Associate-ODC Port of San Diego Security Level: Email, Account Authentication (None)	 Using IP Address: 207.215.153.162	Sent: 7/17/2020 5:08:36 AM Viewed: 7/17/2020 9:56:54 AM Signed: 7/17/2020 9:57:13 AM
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Agent Delivery Events	Status	Timestamp
Intermediary Delivery Events	Status	Timestamp
Certified Delivery Events	Status	Timestamp
Carbon Copy Events	Status	Timestamp
Margret Hernandez mhernandez@portofsandiego.org Security Level: Email, Account Authentication (None) Electronic Record and Signature Disclosure: Not Offered via DocuSign	COPIED	Sent: 7/14/2020 7:56:14 AM
Sally Raney sraney@portofsandiego.org Security Level: Email, Account Authentication (None) Electronic Record and Signature Disclosure: Not Offered via DocuSign	COPIED	Sent: 7/17/2020 9:57:15 AM
Janet Graham jgraham@portofsandiego.org Administrative Assistant II-ODC Port of San Diego Security Level: Email, Account Authentication (None) Electronic Record and Signature Disclosure: Not Offered via DocuSign	COPIED	Sent: 7/17/2020 9:57:17 AM
Cody Thomas cothomas@portofsandiego.org Administrative Assistant II San Diego Unified Port District Security Level: Email, Account Authentication (None) Electronic Record and Signature Disclosure: Not Offered via DocuSign	COPIED	Sent: 7/17/2020 9:57:18 AM
Patrick Miller pmiller@portofsandiego.org Document Management Assistant-ODC Port of San Diego Security Level: Email, Account Authentication (None) Electronic Record and Signature Disclosure: Not Offered via DocuSign	COPIED	Sent: 7/17/2020 9:57:18 AM
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Signing Complete	Security Checked	7/17/2020 9:57:18 AM

Completed

Security Checked

7/17/2020 9:57:18 AM

Payment Events

Status

Timestamps

Electronic Record and Signature Disclosure



File #:2020-0196

DATE: June 23, 2020

SUBJECT:

RESOLUTION AUTHORIZING THE REQUIRED ANNUAL ADOPTION OF BPC NO. 115, GUIDELINES FOR PRUDENT INVESTMENTS, WITH NO CHANGES FROM PRIOR YEAR

EXECUTIVE SUMMARY:

Board of Port Commissioners (BPC) Policy No. 115, Guidelines for Prudent Investments, requires that this policy, which contains the District's investment policy, be submitted annually to the Board of Port Commissioners for review and adoption by resolution. This policy is also updated for relevant legislative changes to California Government Code Section 53600 *et seq.* which details numerous requirements on how and where public funds may be invested. The California Debt and Investment Advisory Commission (CDIAC), a State-sponsored commission which provides information and policy research for public fund investments to local public agencies, published a statutory update dated January 1, 2020 reflecting changes in the law with respect to public funds investments. After research, analysis, and review of CDIAC's report on numerous legislative updates effective January 1, 2020, staff found that there were no approved changes to the local agency investment codes during the 2019 Legislative session that directly impact the District or require policy changes.

Therefore, staff recommends the required annual adoption of BPC Policy No. 115, Guidelines for Prudent Investments, with no changes to the policy.

RECOMMENDATION:

Adopt a resolution authorizing the required annual adoption of BPC Policy No. 115, Guidelines for Prudent Investments, with no changes from prior year

FISCAL IMPACT:

This agenda item has no fiscal impact.

COMPASS STRATEGIC GOALS:

This agenda item supports the Port's strategic goal for a financially sustainable Port that drives job creation and regional economic vitality.

File #:2020-0196

DISCUSSION:

As part of best practices and sound financial management and in accordance with BPC Policy No. 115, Guidelines for Prudent Investments, the Board of Port Commissioners annually reviews and adopts this policy taking into consideration changes in State law and other relevant factors. The policy serves as a guide for setting the District's investment management functions and provides transparency and disclosure to its stakeholders. Staff contacted the California Debt and Investment Advisory Commission (CDIAC), a State-sponsored commission which provides information and policy research for public fund investments to local public agencies. After research, analysis, and review of CDIAC's report on legislative updates effective January 1, 2020, staff found that there were no approved changes to the local agency investment codes during the 2019 Legislative session that directly impact the District or require policy changes.

Based on the above, staff is recommending that the Board authorizes the annually required adoption of BPC Policy No. 115, Guidelines for Prudent Investments. For reference purposes, a list of the allowable investment instruments per State Government Code is included in Attachment 'A' and the District's current BPC Policy No. 115, Guidelines for Prudent Investments, is included in Attachment 'B.'

General Counsel's Comments:

The Office of the General Counsel has reviewed and approved this agenda and the proposed resolution, as presented, as to form and legality.

Environmental Review:

The Board direction or action, including without limitation, a resolution authorizing annual adoption of BPC No. 115, does not constitute a "project" under the definition set forth in California Environmental Quality Act (CEQA) Guidelines Section 15378 because it will not have a potential to result in a direct or indirect physical change in the environment and is, therefore, not subject to CEQA. No further action under CEQA is required.

In addition, the Board action complies with Sections 21 and 35 of the Port Act, which allow the Board to pass resolutions; and to do all acts necessary and convenient for the exercise of its powers. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the Board action is consistent with the Public Trust Doctrine.

Finally, the Board direction or action does not allow for "development," as defined in Section 30106 of the California Coastal Act, or "new development," pursuant to Section 1.a. of the District's Coastal Development Permit Regulations. Therefore, issuance of a Coastal Development Permit or exclusion is not required.

Equal Opportunity Program:

File #:2020-0196

Not applicable.

PREPARED BY:

Robert DeAngelis
CFO/Treasurer

Attachment(s):

- Attachment A: List of allowable investment instruments per State Government Code
- Attachment B: BPC Policy No. 115, Guidelines for Prudent Investments

FIGURE 1

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2020)^A APPLICABLE TO ALL LOCAL AGENCIES^B

See "Table of Notes for Figure 1" on the next page for footnotes related to this figure.

INVESTMENT TYPE	MAXIMUM MATURITY ^C	MAXIMUM SPECIFIED % OF PORTFOLIO ^D	MINIMUM QUALITY REQUIREMENTS	GOV'T CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations—CA And Others	5 years	None	None	53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40% ^E	None	53601(g)
Commercial Paper—Non-Pooled Funds ^F	270 days or less	25% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(C)
Commercial Paper—Pooled Funds ^I	270 days or less	40% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30% ^J	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq
Placement Service Deposits	5 years	50% ^K	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50% ^K	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days ^L	20% of the base value of the portfolio	None ^M	53601(j)
Medium-Term Notes ^N	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple ^{P,Q}	53601(l) and 53601.6(b)
Collateralized Bank Deposits ^R	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-Through and Asset-Backed Securities	5 years or less	20%	"AA" rating category or its equivalent or better	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple ^S	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund ^T	N/A	None	None	16340
Supranational Obligations ^U	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

- A Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq., 53635, 53635.8, and 57603.
- *Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.*
 - c *Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year remaining maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.*
 - *Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.*
 - *No more than 30 percent of the agency's money may be in bankers' acceptances of any one commercial bank.*
 - ' *Includes agencies defined as a city, a district, or other local agency that do not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body.*
 - *Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer.*
 - " *Issuing corporation must be organized and operating within the U.S., have assets in excess of \$500 million, and debt other than commercial paper must be in a rating category of "I" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, have program wide credit enhancements, and have commercial paper that is rated "1-1" or higher, or the equivalent, by a nationally recognized statistical rating agency.*
 - ' *Includes agencies defined as a county, a city and county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set forth in Section 53601(h)(2)(CJ).*
 - J *No more than 30 percent of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).*
 - K *Effective January 1, 2020, no more than 50 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). On January 1, 2026, the maximum percentage of the portfolio reverts back to 30 percent. Investments made pursuant to 53635.8 remain subject to a maximum of 30 percent of the portfolio.*
 - c *Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.*
 - M *Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.*
 - " *"Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States."*
 - *No more than 10 percent invested in any one mutual fund. This limitation does not apply to money market mutual funds.*
 - P *A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635.*
 - *A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of \$500 million.*
 - " *Investments in notes, bonds, or other obligations under Section 53601(n) require that collateral be placed into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, among other specific collateral requirements.*
 - S *A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).*
 - r *Local entities can deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.*
 - u *Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less.*



BPC Policy No. 115

SUBJECT: GUIDELINES FOR PRUDENT INVESTMENTS

PURPOSE: To define the District's investment program objectives and to establish policies and procedures for the prudent investment of the District's cash.

POLICY STATEMENT:

1.0 INTRODUCTION

It is the policy of the San Diego Unified Port District (the District) to invest public funds in a manner that will provide the highest security of the funds under management while meeting the daily cash flow demands of the District. The investment policies and practices of the District are based upon prudent money management and conform to all state and local statutes governing the investment of public funds.

This policy also addresses risk management because risk management is an integral part of managing a fixed income portfolio. To focus only on maximizing return is imprudent; therefore, policy issues will be directed to limiting the investment portfolio's exposure to each issue and issuer of debt, and criteria for establishing minimum credit requirements that firms must have in order to effect security transactions with the District.

2.0 SCOPE

This investment policy applies to all the District's investment activities, except for the Employees Retirement and Deferred Compensation funds, which are administered separately. The financial assets of all other District funds shall be administered in accordance with the provisions of this policy. These funds are accounted for in the District's Comprehensive Annual Financial Report and include:

2.1 Funds

2.1.1 General Fund

2.1.2 Capital Outlay Fund

2.1.3 Any new fund created by the Board of Port Commissioners or operation of law, unless specifically exempted.

3.0 PRUDENCE

Persons authorized to make investment decisions for the District are trustees and therefore fiduciaries subject to the prudent investor standard.

3.1 When investing, reinvesting, purchasing, acquiring, exchanging, selling, and

managing funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

3.2 Investment officials acting in accordance with written procedures and investment policy and exercising due diligence shall be relieved of personal responsibility of an individual security's credit risk or market price changes, provided deviation from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 OBJECTIVES

The primary objectives, in priority order, of the District's investment activities shall be:

4.1 **Safety of principal:** Safety of principal is the District's foremost objective. To accomplish this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Each investment transaction shall seek to ensure that capital losses are avoided, whether from issuer default, broker/dealer default, or erosion of market value. The District shall seek to preserve principal by mitigating credit risk and market risk.

4.1.1 Credit Risk is the risk of loss due to failure of the issuer to repay an obligation and shall be mitigated by investing in only the highest quality credits and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the District's cash flows.

4.1.2 Market risk is the risk of market value fluctuations due to overall changes in the general level of interest rates and shall be mitigated by structuring the portfolio so that securities mature at the same time major cash outflows occur, thereby eliminating the need to sell securities prior to their maturity; and, by prohibiting the taking of short positions, that is, selling securities that the District does not own.

4.1.3 It is explicitly recognized, however, that in a diversified portfolio occasional losses may occur and must be considered within the context of overall investment return.

4.2 **Liquidity:** The District's investment portfolio will be structured to provide sufficient liquidity to meet the operating requirements of the District.

4.3 **Return on investment:** State law requires that the objective of return on investment be subordinate to the objectives of safety and liquidity. Therefore, investment officials shall seek to achieve a return on the funds under their control throughout all economic cycles, taking into consideration the District's investment risk constraints and cash flow requirements.

5.0 AUTHORITY TO INVEST FUNDS

The monies entrusted to the District will be invested and actively managed. This

function is viewed as a full-time responsibility. The authority to execute investment transactions shall be limited to the Treasurer and Deputy Treasurer. The Treasurer and Deputy Treasurer will observe, review, and react to the changing conditions that affect the investment portfolio. The Treasurer and Deputy Treasurer will meet on a regular basis to discuss current market conditions and future trends and how each of these affects the investment portfolio and the District. The Treasurer and Deputy Treasurer shall establish a system of controls to ensure compliance with the District's investment policy and to regulate the activities of subordinate officials.

6.0 ETHICS AND CONFLICTS OF INTEREST

Board Commissioners, District officers or District employees involved in the investment process shall refrain from any activity that could conflict with proper execution of the investment program, or which could impair the Treasurer's or Deputy Treasurer's ability to make impartial investment decisions. District staff involved with the investment process shall disclose to the Executive Director/President and Chief Executive Officer any material financial interest in financial institutions that conduct business with the District, and they shall further disclose any large personal financial and/or investment positions that could be related to the performance of the District's portfolio. Board Commissioners, District officials and District employees shall subordinate their personal investment transactions to those of the District, particularly with regard to the timing of purchases and sales.

7.0 QUALIFIED DEALERS

The District shall transact business only with commercial banks, savings and loans, and investment securities dealers. The dealers must be primary dealers regularly reporting to the Federal Reserve Bank of New York. Regional dealers that qualify under the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) will be approved at the discretion of the Treasurer.

7.1 All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with an audited financial statement, proof of National Association of Security Dealers certification, trading resolution, proof of state registration, completed broker/dealer questionnaire, and certification of (a) having read the District's investment policy and depository contracts and (b) recommending and executing only transactions that comply with same. The Treasurer shall determine if they are adequately capitalized, make markets in securities appropriate to the District's needs, and are recommended by managers of portfolios similar to the District's.

7.2 An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the District invests.

7.3 The District shall at least annually send a copy of the current investment policy to all financial institutions and broker/dealers approved to do business with the District. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the District's investment policy and will recommend and execute only transactions suitable for and in compliance with the District's investment policy.

8.0 AUTHORIZED INVESTMENTS

The District is authorized by California Government Code Section 53600 et seq. to invest in the following types of securities, further limited herein:

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

8.2 **Obligations issued by United States Government Agencies** such as, but not limited to, the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Student Loan Marketing Association (SLMA) and the Tennessee Valley Authority (TVA). Although there is no percentage limitation of the dollar amount that can be invested in these issuers, the "prudent person" rule shall apply for any single agency name.

8.3 Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as **bankers acceptances** which are eligible for purchase by the Federal Reserve System, may not exceed 180 days to maturity or 40 percent of the market value of the portfolio. No more than 10 percent of the market value of the portfolio may be invested in banker's acceptances issued by any one bank.

8.4 **Commercial paper** of prime quality that is rated "A-1" or higher, or equivalent as provided for by a nationally recognized statistical rating organization (NRSRO) and issued by a domestic corporation having assets in excess of \$500 million and having an A or its equivalent or higher rating on its long term debt as provided by an NRSRO. Purchases of eligible commercial paper may not exceed 270 days to maturity. Purchases of commercial paper may not exceed 15 percent of the market value of the portfolio. No more than 10 percent of the market value of the portfolio may be invested in commercial paper issued by any one corporation. An additional 15 percent, or 30 percent of the market value of the portfolio, may be invested in eligible commercial paper only if the dollar-weighted average maturity of the entire amount does not exceed 31 days. "Dollar-weighted average maturity" means the sum of the amount of each outstanding commercial paper investment multiplied by the number of days to maturity, divided by the total amount of outstanding commercial paper.

8.5 **Negotiable certificates of deposit** (NCDs) issued by a nationally or state-chartered bank or a state or federal savings institution. Purchased NCDs may not exceed 30 percent of the market value of the portfolio and the maximum maturity date shall not exceed one year.

8.5.1 The Treasurer shall use a nationally recognized statistical rating organization (NRSRO), as designated by the Securities and Exchange Commission, for the qualitative and quantitative analysis of financial institutions.

8.5.2 The Treasurer shall specify minimum criteria for investment as derived from the evaluation service.

8.6 **Medium Term Notes** (MTNs) issued by corporations organized and operating within the United States. MTNs eligible for purchase shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. MTNs with an "A" rating shall be limited to 24 months maximum maturity; AA rated MTNs shall be limited to 36 months. The aggregate total of all purchased MTNs may not exceed 30 percent of the market value of the investment portfolio. No more than 5 percent of the market value of the portfolio may be invested in notes issued by any one corporation. Commercial paper holdings shall be considered when calculating the maximum percentage of any issuer name.

8.7 **Repurchase agreements** (RPAs) shall only be made with primary dealers of the Federal Reserve Bank of New York. The Public Securities Association master repurchase agreement shall be the District's master repurchase agreement.

8.7.1 The term of the agreement may not exceed one year.

8.7.2 The market value of the securities used as collateral for repurchase agreements shall be monitored daily by the Deputy Treasurer and will not be allowed to fall below 102 percent of the value of the repurchase agreement.

8.7.3 The market value of the securities that underlay the repurchase agreement shall be adjusted no less than quarterly.

8.7.4 In order to conform with provisions of the Federal Bankruptcy Code, which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be certificates of deposit, eligible banker's acceptances, or securities that are direct obligations of the United States government.

8.8 **Reverse Repurchase Agreements** (RRPAs) shall only be made with primary dealers of the Federal Reserve Bank of New York and are authorized when the security to be sold on reverse repurchase agreement has been owned and fully paid for a minimum of 30 days prior to sale, the earnings from the matching investment(s) are greater than or equal to the cost of the reverse(s), and the terms and conditions are otherwise favorable to the District. Reverse repurchase agreements may not exceed 60 days to maturity and the maturity of the security purchased with the proceeds of the reverse must coincide with the date of the expiry of the reverse. No more than 10 percent of the portfolio may be invested in reverse repurchase agreements.

8.9 The **Local Agency Investment Fund** (LAIF), established by the State Treasurer for the benefit of local agencies and identified under Government Code Section 16429.1, is authorized up to the maximum amount permitted by State law.

8.10 The District may place funds in **inactive deposits** with those banks having offices in San Diego County. Such deposits in each bank shall be limited to no more than five percent (5%) of the total assets of the bank. All deposits shall be secured in accordance with California Government Code § 53652 and the District shall not waive the maximum

amount or any portion of deposit insurance for collateral purposes. No more than ten percent (10%) of the portfolio may be invested in this category since time deposits are not liquid. Further, in accordance with California Government Code § 53635, to be eligible to receive funds, a bank, savings association, federal association, or federally insured industrial loan company shall have received an overall rating of not less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record in meeting the credit needs of California’s communities, including low-and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code.

8.11 The District may place funds in **shares of beneficial interest** issued by diversified management companies investing in the securities and obligations as authorized by California Government Code § 53601 subdivisions (a) to (l) inclusive. To be eligible for investment, these companies shall either:

8.11.1 attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or,

8.11.2 retain an investment adviser registered with the Securities and Exchange Commission with not less than five years’ experience investing in the securities and obligation as authorized by California Government Code §53601 subdivision (a) to (m), inclusive and with assets under management in excess of five hundred million dollars (\$500,000,000).

8.11.3 The purchase price of shares of beneficial interest shall not exceed 20 percent of the portfolio’s market value and no more than 10 percent of the portfolio’s market value may be invested in shares of beneficial interest of any one mutual fund.

8.12 **Derivative securities** are those securities that derive their value from another asset or index, such as Treasury securities or the prime interest rate. A derivative security offers a yield higher than a comparable security because of the intrinsic risk associated with the security’s imbedded option (e.g., an interest rate that floats off the prime rate versus a fixed interest rate). Investments in derivative securities shall be made using the prudent investor person standard and shall be limited to federal agency issues.

8.13 **Investment Trust of California** (CalTRUST), a Public Joint Powers Authority pooled investment program, created by local public agencies and authorized by Government Code sections 53601(p) and 53635. Investments in CalTRUST shall not exceed 30 percent of the portfolio’s market value.

8.14 The District may place funds in **Certificates of Deposit** pursuant to California Government Code Sections 53601.8 and 53635.8. Purchases of Certificates of Deposit pursuant to Sections 53635.8 and subdivision (h) of Section 53601 shall not, in total, exceed 30 percent of the portfolio’s market value.

8.15 In accordance with California Government Code Section 53601 (d), the District may place funds in **California State & Local Agency Obligations** or registered treasury notes or bonds of any other 49 United States in addition to California, including bonds payable

solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California; provided that the obligations are rated AAA by a nationally recognized statistical-rating service organization (NRSRO).

8.16 **Supranational Obligations** issued in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO and shall not exceed 30 percent of the agency’s moneys that may be invested pursuant to this section.

9.0 PROHIBITED INVESTMENTS

Investments not described herein, including but not limited to, inverse floating rate notes, range notes, interest-only strips that are derived from a pool of mortgages, common stocks, and long-term corporate notes or bonds are prohibited from use in this portfolio. The District shall not invest any funds in any security that could result in zero interest accrual if held to maturity. Investments that exceed five years to maturity require authorization by the Board of Port Commissioners prior to purchase.

10.0 INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of the pool/fund is required prior to investing and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- A description of the eligible investment securities and a written statement of investment policy and objectives.
- A description of interest calculations and how interest is distributed and how gains and losses are treated.
- A description of how the securities are safeguarded, including settlement processes, and how often the securities are priced and the program is audited.
- A description of who may invest in the program, how often, what size deposit and withdrawals are allowed, and notification requirements pertaining to deposits or withdrawals.
- A schedule for receiving statements and portfolio holdings.
- A statement that indicates if reserves, retained earnings, etc. are utilized by the pool/fund.
- A fee schedule and when and how fees are assessed.
- A statement that indicates if the pool/fund is eligible for the deposit of bond proceeds and/or if the pool/fund will accept such proceeds.

A published prospectus that answers these questions may be used in lieu of the District

questionnaire.

11.0 SAFEKEEPING OF SECURITIES

To protect against potential losses by the collapse of individual securities dealers, all securities owned by the District shall be held in safekeeping by a third party bank trust department acting as agent for the District under the terms of a custody agreement executed by the bank and the District. All securities will be received and delivered using standard **delivery-versus-payment** procedures.

12.0 MAXIMUM MATURITY

The portfolio's weighted average days to maturity shall be limited to a maximum of three years. The maximum maturity of any one security, unless otherwise restricted by Government Code, shall be limited to five years. Investments that exceed five years to maturity require authorization by the Board of Port Commissioners prior to purchase.

13.0 SELLING OR SWAPPING SECURITIES

13.1 The Treasurer has the authority to sell any security in the District's portfolio in order to take advantage of profitable market movements or for the purpose of raising cash. Any security that is sold at a loss will be recorded as such in the District's accounting system; all securities that are sold will be identified in the investment reports issued by the Treasurer.

13.2 A swap is the movement from one security to another and may be done for a variety of reasons, such as to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality. Losses or gains on security swaps shall be recorded as a completed sale and purchase in the District's accounting system.

14.0 PORTFOLIO ADJUSTMENTS

Should an investment percentage-of-portfolio limitation be exceeded due to an incident such as fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses. When no loss is indicated, the Treasurer shall consider reconstructing the portfolio basing the decision in part on the expected length of time that the portfolio will be imbalanced.

15.0 PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return commensurate with the District's investment risk constraints and its anticipated cash flow requirements.

15.1 **Benchmark Market Yield:** The basis used by the Treasurer to determine whether market yields are being achieved shall be a comparison of the District's yield to maturity at month end to:

15.1.1 The month end yield to maturity of the State of California's Local Agency Investment Fund; and,

15.1.2 The average monthly yield of the Constant Maturity Treasury (CMT) whose duration most closely approximates the duration of the District's portfolio at month end.

Although the duration of either the LAIF portfolio or the CMT may not be exactly equal to the duration of the District's portfolio, the rationale for using these two benchmarks is to show whether the District's portfolio is following market trends with respect market yields.

16.0 REPORTING REQUIREMENTS

16.1 On a quarterly basis, the Treasurer shall render a report to the Executive Director/President and Chief Executive Officer, the Internal Auditor, and the Board of Port Commissioners.

16.1.1 The report shall be submitted within 30 days of the end of the quarter covered by the report.

16.1.2 The report shall include the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and moneys held by the District.

16.1.3 The report shall include a description of any funds, investments, or programs that are under the management of contracted parties.

16.1.4 The report shall also include a current market value as of the report date and identify the source of the valuation.

16.1.5 The report shall state compliance of the portfolio to the statement of investment policy, or the manner in which it is not in compliance.

16.1.6 The report shall state the District's ability to meet its budgeted expenditure requirements for the next six months, or to explain why sufficient money may not be available.

16.2 The report will consist of:

16.2.1 **Portfolio Master Summary:** A summary of the District's investment holdings. This report identifies, by investment type, book value (cost), percent of portfolio, average term, average days to maturity, and yield to maturity on a 360 day basis (bond equivalent yield) and 365 day basis (CD equivalent yield).

16.2.2 **Investment Portfolio Details:** A detailed accounting of the District's investment holdings by investment type. This report identifies each security by subsidiary investment number, issuer, purchase date, book value (cost), face value (par value), market value, stated rate (either interest rate or discount rate), yield to maturity on a 360- and 365- basis,

maturity date and days to maturity. Additionally, this report identifies the average balance for each investment class.

16.2.3 Investment Activity Summary: A summary of the District's historic investment activity from the beginning of the fiscal year through the current reporting period. This report identifies, by month, the number of active investments, the total dollar amount invested, the yield to maturity on a 360- and 365- day basis, the number of securities purchased, the number of securities matured or sold, the average term, and the average days to maturity. The report concludes with averages of each reporting category.

16.2.4 Interest Earnings Summary: A summary of the portfolio earnings for the current month and fiscal year to date.

17.0 INTERNAL CONTROL

The development of internal controls is a function of management. The Treasurer and Deputy Treasurer shall establish an annual process of independent review by an external examiner.

18.0 INVESTMENT POLICY ADOPTION

This investment policy shall be reviewed annually and adopted by resolution to ensure its consistency with the District's objectives of preservation of principal, liquidity, rate of return, and the policy's relevance to current law and financial and economic trends. The Treasurer is responsible for maintaining guidance over this investment policy and ensuring that the District can adapt readily to changing market conditions and shall submit to the Board of Port Commissioners any modification to the investment policy prior to implementation.

GLOSSARY OF TERMS

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered (that is, the price at which a firm will sell a security to an investor).

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

BASIS POINT: One one-hundredth of a percentage point (i.e., 0.01%).

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered for securities (that is, the price at which a firm will pay to purchase a security an investor owns).

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not take a position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

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

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

COMMERCIAL PAPER: An unsecured short-term promissory note issued by corporations or municipalities, with maturities ranging from 2 to 270 days.

CONSTANT MATURITY TREASURY: An index for a U.S. Treasury maturity that reflects the weekly or monthly average yield adjusted to a constant maturity. Yields on Treasury securities at "constant maturity" are interpolated by the U.S. Treasury from the daily yield curve, which is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. The CMT indexes are volatile and move with the market. They reflect the state of the economy and respond quickly to economic changes.

COUPON: (a) The annual rate of interest that bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing

interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free delivery). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be selling at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g., U.S. Treasury bills).

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

DURATION: A measurement of a bond's price volatility. It is the weighted-average term-to-maturity of the bond's cash flows, with the weights being the present value of each cash flow. Mathematically, duration is the first derivative of price with respect to yield.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals (e.g., small business firms, students, farmers, and farm cooperatives).

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which the Fed funds are traded. This rate is currently pegged by the Federal Reserve through open market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to

that played by the Federal Reserve Banks vis-à-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and 4,115 commercial banks (at December 31, 1994) that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA or VA mortgages. The term pass-throughs is often used to describe Ginnie Maes.

INVERSE FLOATING RATE NOTE: A debt security with an interest rate stated as a fixed rate minus an index. This calculation causes the rate on the inverse floater to move in the opposite direction of general interest rates. This instrument generally performs well in a declining interest rate environment but will lose value if rates rise.

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

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment. The State of California's pool is known as the Local Agency Investment Fund, or LAIF.

MARKET VALUE: The price at which a security is trading and could presumably be

sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase agreements and reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

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

MEDIUM-TERM NOTES: A class of debenture.

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

MORTGAGE POOL: A group of mortgages sharing similar characteristics in terms of class of property, interest rate, and maturity. Investors buy participations and receive income derived from payments on the underlying mortgages.

MUTUAL FUND: A fund operated by an investment company that raises money from shareholders and invests it in stocks, bonds, options, commodities, or money market securities. These funds offer investors the advantages of diversification and professional management.

OFFER: The price asked by a seller of securities. See also Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker/dealers, banks, and a few unregulated firms.

PRUDENT INVESTOR STANDARD: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state, the-so-called legal list. In other states, the trustee may invest in a

security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RANGE NOTE: A debt security with a varied interest payment that depends on the number of days the designated index falls within (or in some cases outside) an established range of interest rates. Should rates move beyond the range on either end, the investor faces the risk of a reduced, or zero, interest payment for the applicable interest period.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structure to compensate the buyer for this. Dealers use RP extensively to finance their positions. Exception: when the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

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

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRIP (Bonds): Brokerage-house practice of separating a bond into its principal and interest, which are then sold as zero coupon bonds.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (e.g., FHLB, FNMA, SLMA, etc.) and Corporations that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

SUPRANATIONAL OBLIGATIONS: Bonds and Notes issued by two or more

international institutions with the purpose of promoting economic development for the member countries. Examples include The International Finance Corporation and The World Bank.

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

TREASURY BONDS: Long-term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one year to ten years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

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

RESOLUTION NUMBER AND DATE: 2020-XXX, dated June 23, 2020 (Supersedes BPC Policy No. 115, Resolution 2019-070; Resolution 2018-115, dated June 12, 2018; Resolution 2017-091, dated June 20, 2017, Resolution 2016-85, dated June 15, 2016; Resolution 2015-72, dated June 11, 2015; Resolution 2014-135, dated July 8, 2014; Resolution 2013-115, dated July 16, 2013; Resolution 2012-94, dated July 10, 2012; 2011-146, dated October 11, 2011; Resolution 2010-89, dated June 8, 2010; Resolution 2009-123, dated July 7, 2009, Resolution 2008-284, dated December 2, 2008, Resolution 2008-126, dated July 1, 2008, Resolution 2007-103, dated June 12, 2007; Resolution 2006-113, dated July 11, 2006; Resolution 2005-99, dated June 21, 2005; Resolution 2004-87, dated June 22, 2004; Resolution 2003-114, dated June 17, 2003; Resolution 2002-148, dated June 18, 2002; Resolution 2001-118, dated June 19, 2001; Resolution 2000-132, dated June 27, 2000; Resolution 99-151, dated June 22, 1999; Resolution 98-158, dated June 30, 1998; Resolution 97-115, dated June 17, 1997; Resolution 96-165, dated June 25, 1996; Resolution 95-242, dated July 25, 1995; Resolution 95-321, dated September 26, 1995; Resolution 86-23, dated January 14, 1986; Resolution 81-328, dated October 6, 1981; and Resolution 75-15, dated January 21, 1975)

DRAFT

RESOLUTION 20xx-xxx

RESOLUTION AUTHORIZING THE REQUIRED ANNUAL ADOPTION OF BPC NO. 115, GUIDELINES FOR PRUDENT INVESTMENTS, WITH NO CHANGES FROM PRIOR YEAR

WHEREAS, the San Diego Unified Port District (District) is a public corporation created by the Legislature in 1962 pursuant to Harbors and Navigation Code Appendix I (Port Act); and

WHEREAS, Board of Port Commissioners (BPC) Policy No. 115, Guidelines for Prudent Investments, requires that this policy, which contains the District's investment policy, be submitted annually to the Board of Port Commissioners for review and adoption by resolution; and

WHEREAS, this policy is also updated for relevant legislative changes to California Government Code Section 53600 et seq. which details numerous requirements on how and where public funds may be invested; and

WHEREAS, the California Debt and Investment Advisory Commission (CDIAC), a State-sponsored commission which provides information and policy research for public fund investments to local public agencies, published a statutory update dated January 1, 2020 reflecting changes in the law with respect to public funds investments; and

WHEREAS, after research, analysis, and review of CDIAC's report on numerous legislative updates effective January 1, 2020, staff found that there were no approved changes to the local agency investment codes during the 2019 Legislative session that directly impact the District or require policy changes; and

WHEREAS, staff recommends the required annual adoption of BPC Policy No. 115, Guidelines for Prudent Investments, with no changes to the policy.

NOW, THEREFORE, BE IT RESOLVED by the Board of Port Commissioners of the San Diego Unified Port District hereby readopts BPC Policy No. 115, Guidelines for Prudent Investments, with no changes to the policy.

APPROVED AS TO FORM AND LEGALITY
GENERAL COUNSEL

20xx-xxx

By Assistant/Deputy

PASSED AND ADOPTED by the Board of Port Commissioners of the San Diego Unified Port District, this 23rd day of June 2020, by the following vote