AGENDA REPORT

Meeting Date: June 24, 2014

Item Number: D-5

To: Honorable Mayor & City Council

From: Eliot M. Finkel, City Treasurer

Subject: **ADOPTION OF THE STATEMENT OF INVESTMENT POLICY FOR FISCAL YEAR 2014/15**

Attachments:
1. **Redline Version of FY 2014/15 Investment Policy**
2. **FY 2014/15 Investment Policy**

RECOMMENDATION

Staff recommends that the City Council move to adopt the Statement of Investment Policy for fiscal year 2014/15.

INTRODUCTION

Though state law does not require cities to formally adopt an investment policy annually, it is prudent to evaluate all financial policies regularly to determine whether circumstances have changed.

DISCUSSION

The City Treasurer and staff have reviewed the current statement of investment policy and have made the recommended changes as outlined in the attached redline version of the final document. The City's policy continues to be more conservative than the slightly broader limitations established under the Government Code.

FISCAL IMPACT

Adoption of the statement of investment policy will not have a direct fiscal impact, but will affirm that the policy meets the City's needs.

Eliot M. Finkel
City Treasurer

Don Rhoads
Approved By

Attachment 1

City of Beverly Hills
Statement of Investment Policy

Fiscal Year 201~~3~~4/201~~4~~5

1.0 Policy:

This Investment Policy applies to the City of Beverly Hills (the City). It is the policy of the ~~City Of~~City of Beverly Hills to protect, preserve and maintain ~~their~~ its ~~respective~~ assets. The ~~City Of~~City of Beverly Hills shall invest public funds in a manner that will provide the highest investment return commensurate with maximum security, while meeting the respective cash flow demands of each agency and conforming to all State and Local statues governing the investment of public funds.

2.0 Scope:

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by outside fiscal agents under the provisions of bond indentures, funds in the City's employee deferred compensation plan, or other funds as designated by the City Council or Chief Financial Officer. Funds contained in the City's pool are designated as "General Portfolio". This investment policy applies to the investment of surplus funds contained in the "General Portfolio". These funds are accounted for in the Comprehensive Annual Financial Report and include:

The General Fund
All Special Revenue Funds
All Debt Service Funds
All Capital Projects Funds
All Enterprise Funds
All Internal Service Funds
All Trust and Agency Funds

3.0 Prudence:

The ~~City Of~~City of Beverly Hills is held to the prudent investor standard set forth in Section 53600.3 of the Government Code which states: "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity~~ity~~ 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."

4.0 Objectives:

The primary objectives, of the investment activities of the ~~City Of~~City of Beverly Hills in priority order shall be:

4.1. Safety: Safety of principal is the foremost objective of the investment program. "Safety" means ~~that~~ the overall value of invested public funds shall not be diminished in the process of securing and investing those funds or over the duration of the investments. To attain this objective, portfolio diversification is required.

4.2. Liquidity: The investment portfolio of the ~~City Of~~City of Beverly Hills will remain sufficiently liquid to enable such agency to meet all operating requirements of such agency which might be reasonably anticipated.

Additionally, since all possible cash demands cannot be anticipated, a large portion of the securities held should be those for which active secondary markets exist. The liquidity of each type of authorized investment is included in its description in Section 8 "Authorized and Suitable Investments" hereof.

4.3. Return on Investment (Yield): The investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow characteristics of such portfolio.

In general, the California Government Code limits authorized investments to those classes of securities which have lower risk (and therefore lower yields) than other higher risk investment choices. In each investment transaction the anticipated return on investment is subordinate to the preceding requirements of reduction of credit and interest rate risk.

5.0 Delegation of Authority:

Authority to manage the investment program of the ~~City Of~~City of Beverly Hills is derived from Government Code Sections~~.~~ 53601 and 53607 (which respectively authorize a legislative body to invest public funds, and the legislative body's delegation of such authority to the treasurer of the corresponding agency), Municipal Code Sec. 2-3.1101 (which establishes the elected office of City Treasurer), and Municipal Code Sec. 2-3.1102 (which defines the Treasurer's duties and functions as those prescribed by the State Government Code commencing with Section 41000). Pursuant to Government Code Section 53607, the City Council delegates the authority to invest or reinvest surplus funds, and to sell or exchange securities so purchased for and on behalf of the City, to the City Treasurer for the one-year period commencing from the date of adoption of this Investment Policy. No person may engage in an investment transaction except as provided under the terms of this policy. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

The City Treasurer has appointed as Deputy City Treasurers the City's Chief Financial Officer and Assistant Director of Administrative Services – Finance with responsibility for treasury operations and the reporting thereof under the Treasurer's general direction. The City Treasurer has also established an Investment Committee consisting of the Treasurer, the Chief Financial Officer and the Assistant Director of Administrative Services – Finance (Deputy City Treasurers) with responsibility for determining the City's investment program and establishing written procedures for the operation of the

investment program consistent with the Investment Policy. The City Treasurer may appoint other ex officio Deputy Treasurers to provide advice on investments.

6.0 Ethics and Conflicts of Interest:

Officers and employees involved in the investment process are required by the City of Beverly Hills' Conflict of Interest Policy and State Government Code Section 81000 to disclose annually to the City Council any material financial interests in financial institutions that conduct business within the City and further to disclose any large personal financial/investment positions that could be related to the performance of the City, particularly with regard to the time of purchase and sales, as part of the City's conflict of interest reporting requirements.

Said employees shall also comply with the City's Administrative Regulation (AR 3B.3) Acceptance of Gifts as a result of being employees of the City of Beverly Hills.

7.0 Authorized Financial Dealers, Institutions and Portfolio Managers:

The City Treasurer will maintain a list of financial institutions authorized to provide investment services, including portfolio management. The Treasurer will provide suitable safeguards to prevent abuse in the exercise of discretion by a portfolio manager and will remain responsible for any investment decisions made by the portfolio manager. In addition, a list will also be maintained of security broker/dealers approved to provide direct services to the ~~City Of~~City of Beverly Hills. These broker/dealers shall be selected by credit worthiness and be authorized to provide broker-dealer services in the State of California. In addition, broker dealers selected for the list shall meet the requirements of Government Code Section 53601.5 (which currently requires that they be one of the following: (i) an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, (ii) a member of a federally regulated securities exchange, (iii) a national or state-chartered bank, (iv) a savings association or federal association (as defined by Section 5102 of the Financial Code), or (v) a brokerage firm designated as a primary government dealer by the Federal Reserve Bank). These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state law. Financial institutions authorized to provide investment services to the ~~City Of~~City of Beverly Hills including portfolio management, shall utilize security broker/dealers who are duly licensed and authorized to provide investment services in the State of California but shall not be limited to the list of approved broker/dealers maintained by the ~~City Of~~City of Beverly Hills.

Anyone providing financial services to the ~~City Of~~City of Beverly Hills, including portfolio management must adhere to the investment policies of the ~~City Of~~City of Beverly Hills as adopted annually by the City Council.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions, including portfolio management, must supply the City Treasurer with the following:

Audited financial statements
Proof of Financial Industry Regulatory Authority (FINRA) certification
Proof of State registration
Certification of having read and understood the investment policy and the depository contracts of the City

A current audited financial statement is required to be on file for each financial institution, broker/dealer and portfolio manager with which the ~~City Of~~City of Beverly Hills invests.

8.0 Authorized and Suitable Investments:

Investable funds, which include funds not needed for the immediate needs of the ~~City Of~~City of Beverly Hills, are determined by the Chief Financial Officer.

The list of eligible securities, into which investable funds may be placed, is drawn from the approved investments contained in the California Government Code Sections 53600 et seq., limited further by the provisions of this Policy.

For eligibility as an investment for the ~~City Of~~City of Beverly Hills, the following restrictions should be added to those contained in the California Government Code Sections 53601 et seq. They are:

8.1 U.S. Treasury Bonds, Notes & Bills - "Strips"~~-~~- The principal and interest portions of U.S. Treasury securities are issued by the Federal Government. Broker/dealers may market the principal portion of these "stripped" securities or "Strips" at deep discounts. In accordance with Government Code Section 53601.6, Strips are not authorized for the ~~City Of~~City of Beverly Hills. However, principal-only Strips (also known as "zero-coupon Treasury securities" or "Discount Notes") are authorized investments, if they meet the requirements of Government Code Section 53601.6(b), which specifies that a local agency shall not invest any of its surplus funds in any security that could result in zero interest accrual if held to maturity.

8.2 U.S. Government Agencies - There are numerous government agencies listed which issue debt instruments but many lack the liquidity necessary to fit the portfolio requirements of the ~~City Of~~City of Beverly Hills. Purchases of government agency securities should be limited to the issues of the Federal Farm Credit Bank, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, and the Student Loan Mortgage Corporation.

8.3 Repurchase Agreements - A repurchase agreement is a contractual agreement between a financial institution or dealer and the ~~City Of~~City of Beverly Hills in which the ~~City Of~~City of Beverly Hills lends its funds to the financial institution or dealer for a certain number of days at a stated rate of interest. In return, the ~~City Of~~City of Beverly Hills takes title to securities as collateral until funds and interest are repaid.

Repurchase agreements may only be made with primary dealers of the Federal Reserve Bank of New York. The ~~City Of~~City of Beverly Hills will not enter into

repurchase agreements for a period greater than 7 days. The market value of the collateral will not be less than the greater of 102% of the funds borrowed against those securities or the sum of the funds borrowed against the securities plus accrued interest. And the security will be treasuries and agencies of the United States Government only.

8.4 Medium term corporate notes (A or above) - may be bought only through major banks or primary dealers which offer competitive secondary markets for the repurchase of the notes before maturity, such as Bank of America ~~-,~~ Merrill Lynch, J. P. Morgan Chase and others.

8.5 Commercial paper - (which must have a rating of A1-P1) **and corporate bonds** (A or above) - may be bought through major banks or primary dealers which can offer or arrange competitive secondary markets for the repurchase of the paper before maturity. The longest maturity approved for commercial paper is 270 days. The longest maturity approved for corporate bonds is 5 years.

8.6 Prohibited Investments - The list of eligible securities contained in the California Government Code is extensive and includes a number of categories which are not suitable investments for funds of the City. The categories in the list which have such limitations are:

~~Notes, bonds or other obligations issued by the Commonwealth of Puerto Rico.~~

The ~~City Of~~City of Beverly Hills shall not invest any funds pursuant to Section 53600, et. seq., in inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages or any security that could result in zero interest accrual if held to maturity.

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

9.0 Collateralization:

All investments of the ~~City Of~~City of Beverly Hills shall be collateralized to the extent required by the State Government Codes. (e.g., repurchase agreements and collateralized time deposits.)

The collateral for time deposits in local savings associations is held at the Federal Home Loan Bank. The collateral for time deposits in local banks is held in the City's name in the trust department of one of the banks with which the City has a current safekeeping agreement (so long as the issuer of the time deposit is not the same bank as the bank holding the collateral) or with the Federal Reserve Bank.

Acceptable collateral instruments are U.S. Treasury or Federal Agency issues equal in market value to at least 110% of the deposit of the ~~City Of~~City of Beverly Hills. Alternatively, prime seasoned first trust deeds meeting the requirements of Government Code Section 53651.2 and equal in value to at least 150% of the deposit of the ~~City Of~~City of Beverly Hills may also be placed by savings associations with the Federal Home Loan Bank, San Francisco to cover collateral requirements for such agency.

Securities which serve as collateral for repurchase agreements with banks may be held in the issuing bank's trust department, provided that a master repurchase agreement has been executed insuring the fiduciary separation of these assets from other bank assets.

10.0 Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements, entered into by the ~~City Of~~City of Beverly Hills shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian and evidenced by safekeeping receipts.

The transferring of investment funds will be carried out exclusively by use of the Federal Reserve Bank's electronic wire transfer system. Each Banker or Primary Dealer with which the ~~City Of~~City of Beverly Hills does business shall receive in writing from the City Treasurer and Chief Financial Officer or designee a listing which limits transfers of funds to pre-authorized bank accounts only.

The listing will also contain the names of the City staff authorized to request such transfers and will be updated in writing for changes of authorized staff and bank accounts as necessary.

Transfers from one account of the City to another shall require the request of only one authorized staff member. Transfers from the City's account to third parties shall require the request of two authorized staff members.

11.0 Maximum Maturities:

To the extent possible, the ~~City Of~~City of Beverly Hills will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the ~~City Of~~City of Beverly Hills will not directly invest in securities maturing more than five (5) years from the date of purchase.

12.0 Internal Control and Audits:

The Chief Financial Officer shall establish an annual process of independent review by an external auditor. This review may be part of the City's annual financial audit performed by an independent certified public accountant which is designed to meet the requirements of the federal Single Audit Act of 1984 and related Office of Management and Budget Circular A-128 or at any other time as determined by the Chief Financial Officer.

13.0 Reporting and Investment Policy Adoption:

The Investment Committee, as defined in Section 5.0 of this policy, shall review and update this Investment Policy annually and present the written, updated policy to the City Council for consideration and adoption as provided in Government Code Section 53646. Quarterly Investment Reports shall be prepared and presented to the City Council for acceptance as provided in Government Code Section 53646.

TABLE 1

Investment Type	Dollar or Percent Limits (calculated separately for each agency's portfolio)	Maturity	Liquid
1. General Instruments			
State Investment Fund (LAIF)	The maximum set by LAIF	On demand	Yes
U.S. Treasury Bonds, Notes & Bills	None	Not to Exceed (NTE) 5 yrs.	Yes
U.S. Government Agencies	None	NTE 5 yrs.	Yes
Any obligation of the State of California or all obligations of a local agency of the State of California with a credit rating of "A1" or above before insurance.	25% of total portfolio	NTE 5 yrs.	Yes
2. Collateralized Investments			
Repurchase Agreements	20% of total portfolio	NTE 7 days	Yes
Time Deposits - Bank & Savings Assoc.	Maximum guaranteed by FDIC per Institution*	NTE 1 year	Yes
3. Uncollateralized Instruments			
Negotiable Certificates of Deposit	30% of total portfolio*	NTE 36 months	Yes
Medium Term Notes and Corporate Bonds rated "A" or above	30% of total portfolio**	NTE 5 years	Yes
Commercial Paper	25% of total portfolio	NTE 270 days	Yes
Bankers Acceptances	NTE 15%	NTE 180 days	Yes

*Percent Limit (30% of total portfolio) is a collective limit for Time Deposits & Negotiable Certificates of Deposits.
**Percent Limit is a collective limit as to Medium Term Notes & Corporate Bonds, which are governed by Gov. Code Sec. 53601(k).

Formatted: Font color: Light Blue
Formatted: Space Before: 0 pt
Formatted: Font: 12 pt, Not Bold

4. Other Instruments			
Shares of "money market funds" which are sold without any sales commission or sales charge of any kind (true no-load funds) and are rated ~~AAAm by Standard & Poor's Corporation~~the highest	20% of total portfolio	On demand	Yes

ranking or highest letter and numerical rating provided by at least two nationally recognized statistical rating organizations

Attachment 2

City of Beverly Hills
Statement of Investment Policy

Fiscal Year 2014/2015

1.0 Policy:

This Investment Policy applies to the City of Beverly Hills (the City). It is the policy of the City of Beverly Hills to protect, preserve and maintain its assets. The City of Beverly Hills shall invest public funds in a manner that will provide the highest investment return commensurate with maximum security, while meeting the respective cash flow demands of each agency and conforming to all State and Local statues governing the investment of public funds.

2.0 Scope:

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by outside fiscal agents under the provisions of bond indentures, funds in the City's employee deferred compensation plan, or other funds as designated by the City Council or Chief Financial Officer. Funds contained in the City's pool are designated as "General Portfolio". This investment policy applies to the investment of surplus funds contained in the "General Portfolio". These funds are accounted for in the Comprehensive Annual Financial Report and include:

The General Fund
All Special Revenue Funds
All Debt Service Funds
All Capital Projects Funds
All Enterprise Funds
All Internal Service Funds
All Trust and Agency Funds

3.0 Prudence:

The City of Beverly Hills is held to the prudent investor standard set forth in Section 53600.3 of the Government Code which states: "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

4.0 Objectives:

The primary objectives, of the investment activities of the City of Beverly Hills in priority order shall be:

4.1. Safety: Safety of principal is the foremost objective of the investment program. "Safety" means the overall value of invested public funds shall not be diminished in the process of securing and investing those funds or over the duration of the investments. To attain this objective, portfolio diversification is required.

4.2. Liquidity: The investment portfolio of the City of Beverly Hills will remain sufficiently liquid to enable such agency to meet all operating requirements of such agency which might be reasonably anticipated.

Additionally, since all possible cash demands cannot be anticipated, a large portion of the securities held should be those for which active secondary markets exist. The liquidity of each type of authorized investment is included in its description in Section 8 "Authorized and Suitable Investments" hereof.

4.3. Return on Investment (Yield): The investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow characteristics of such portfolio.

In general, the California Government Code limits authorized investments to those classes of securities which have lower risk (and therefore lower yields) than other higher risk investment choices. In each investment transaction the anticipated return on investment is subordinate to the preceding requirements of reduction of credit and interest rate risk.

5.0 Delegation of Authority:

Authority to manage the investment program of the City of Beverly Hills is derived from Government Code Sections 53601 and 53607 (which respectively authorize a legislative body to invest public funds, and the legislative body's delegation of such authority to the treasurer of the corresponding agency), Municipal Code Sec. 2-3.1101 (which establishes the elected office of City Treasurer), and Municipal Code Sec. 2-3.1102 (which defines the Treasurer's duties and functions as those prescribed by the State Government Code commencing with Section 41000). Pursuant to Government Code Section 53607, the City Council delegates the authority to invest or reinvest surplus funds, and to sell or exchange securities so purchased for and on behalf of the City, to the City Treasurer for the one-year period commencing from the date of adoption of this Investment Policy. No person may engage in an investment transaction except as provided under the terms of this policy. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

The City Treasurer has appointed as Deputy City Treasurers the City's Chief Financial Officer and Assistant Director of Administrative Services – Finance with responsibility for treasury operations and the reporting thereof under the Treasurer's general direction. The City Treasurer has also established an Investment Committee consisting of the Treasurer, the Chief Financial Officer and the Assistant Director of Administrative Services – Finance (Deputy City Treasurers) with responsibility for determining the City's investment program and establishing written procedures for the operation of the

investment program consistent with the Investment Policy. The City Treasurer may appoint other ex officio Deputy Treasurers to provide advice on investments.

6.0 Ethics and Conflicts of Interest:

Officers and employees involved in the investment process are required by the City of Beverly Hills' Conflict of Interest Policy and State Government Code Section 81000 to disclose annually to the City Council any material financial interests in financial institutions that conduct business within the City and further to disclose any large personal financial/investment positions that could be related to the performance of the City, particularly with regard to the time of purchase and sales, as part of the City's conflict of interest reporting requirements.

Said employees shall also comply with the City's Administrative Regulation (AR 3B.3) Acceptance of Gifts as a result of being employees of the City of Beverly Hills.

7.0 Authorized Financial Dealers, Institutions and Portfolio Managers:

The City Treasurer will maintain a list of financial institutions authorized to provide investment services, including portfolio management. The Treasurer will provide suitable safeguards to prevent abuse in the exercise of discretion by a portfolio manager and will remain responsible for any investment decisions made by the portfolio manager. In addition, a list will also be maintained of security broker/dealers approved to provide direct services to the City of Beverly Hills. These broker/dealers shall be selected by credit worthiness and be authorized to provide broker-dealer services in the State of California. In addition, broker dealers selected for the list shall meet the requirements of Government Code Section 53601.5 (which currently requires that they be one of the following: (i) an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, (ii) a member of a federally regulated securities exchange, (iii) a national or state-chartered bank, (iv) a savings association or federal association (as defined by Section 5102 of the Financial Code), or (v) a brokerage firm designated as a primary government dealer by the Federal Reserve Bank). These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state law. Financial institutions authorized to provide investment services to the City of Beverly Hills including portfolio management, shall utilize security broker/dealers who are duly licensed and authorized to provide investment services in the State of California but shall not be limited to the list of approved broker/dealers maintained by the City of Beverly Hills.

Anyone providing financial services to the City of Beverly Hills, including portfolio management must adhere to the investment policies of the City of Beverly Hills as adopted annually by the City Council.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions, including portfolio management, must supply the City Treasurer with the following:

Audited financial statements
Proof of Financial Industry Regulatory Authority (FINRA) certification
Proof of State registration
Certification of having read and understood the investment policy and the depository contracts of the City

A current audited financial statement is required to be on file for each financial institution, broker/dealer and portfolio manager with which the City of Beverly Hills invests.

8.0 Authorized and Suitable Investments:

Investable funds, which include funds not needed for the immediate needs of the City of Beverly Hills, are determined by the Chief Financial Officer.

The list of eligible securities, into which investable funds may be placed, is drawn from the approved investments contained in the California Government Code Sections 53600 et seq., limited further by the provisions of this Policy.

For eligibility as an investment for the City of Beverly Hills, the following restrictions should be added to those contained in the California Government Code Sections 53601 et seq. They are:

8.1 U.S. Treasury Bonds, Notes & Bills - "Strips"- The principal and interest portions of U.S. Treasury securities are issued by the Federal Government. Broker/dealers may market the principal portion of these "stripped" securities or "Strips" at deep discounts. In accordance with Government Code Section 53601.6, Strips are not authorized for the City of Beverly Hills. However, principal-only Strips (also known as "zero-coupon Treasury securities" or "Discount Notes") are authorized investments, if they meet the requirements of Government Code Section 53601.6(b), which specifies that a local agency shall not invest any of its surplus funds in any security that could result in zero interest accrual if held to maturity.

8.2 U.S. Government Agencies - There are numerous government agencies listed which issue debt instruments but many lack the liquidity necessary to fit the portfolio requirements of the City of Beverly Hills. Purchases of government agency securities should be limited to the issues of the Federal Farm Credit Bank, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, and the Student Loan Mortgage Corporation.

8.3 Repurchase Agreements - A repurchase agreement is a contractual agreement between a financial institution or dealer and the City of Beverly Hills in which the City of Beverly Hills lends its funds to the financial institution or dealer for a certain number of days at a stated rate of interest. In return, the City of Beverly Hills takes title to securities as collateral until funds and interest are repaid.

Repurchase agreements may only be made with primary dealers of the Federal Reserve Bank of New York. The City of Beverly Hills will not enter into repurchase agreements for a period greater than 7 days. The market value of the collateral will not

be less than the greater of 102% of the funds borrowed against those securities or the sum of the funds borrowed against the securities plus accrued interest. And the security will be treasuries and agencies of the United States Government only.

8.4 Medium term corporate notes (A or above) - may be bought only through major banks or primary dealers which offer competitive secondary markets for the repurchase of the notes before maturity, such as Bank of America - Merrill Lynch, J. P. Morgan Chase and others.

8.5 Commercial paper - (which must have a rating of A1-P1) **and corporate bonds** (A or above) - may be bought through major banks or primary dealers which can offer or arrange competitive secondary markets for the repurchase of the paper before maturity. The longest maturity approved for commercial paper is 270 days. The longest maturity approved for corporate bonds is 5 years.

8.6 Prohibited Investments - The list of eligible securities contained in the California Government Code is extensive and includes a number of categories which are not suitable investments for funds of the City. The categories in the list which have such limitations are:

> The City of Beverly Hills shall not invest any funds pursuant to Section 53600, et. seq., in inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages or any security that could result in zero interest accrual if held to maturity.

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

9.0 Collateralization:

All investments of the City of Beverly Hills shall be collateralized to the extent required by the State Government Codes. (e.g., repurchase agreements and collateralized time deposits.)

The collateral for time deposits in local savings associations is held at the Federal Home Loan Bank. The collateral for time deposits in local banks is held in the City's name in the trust department of one of the banks with which the City has a current safekeeping agreement (so long as the issuer of the time deposit is not the same bank as the bank holding the collateral) or with the Federal Reserve Bank.

Acceptable collateral instruments are U.S. Treasury or Federal Agency issues equal in market value to at least 110% of the deposit of the City of Beverly Hills. Alternatively, prime seasoned first trust deeds meeting the requirements of Government Code Section 53651.2 and equal in value to at least 150% of the deposit of the City of Beverly Hills may also be placed by savings associations with the Federal Home Loan Bank, San Francisco to cover collateral requirements for such agency.

Securities which serve as collateral for repurchase agreements with banks may be held in the issuing bank's trust department, provided that a master repurchase agreement

has been executed insuring the fiduciary separation of these assets from other bank assets.

10.0 Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements, entered into by the City of Beverly Hills shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian and evidenced by safekeeping receipts.

The transferring of investment funds will be carried out exclusively by use of the Federal Reserve Bank's electronic wire transfer system. Each Banker or Primary Dealer with which the City of Beverly Hills does business shall receive in writing from the City Treasurer and Chief Financial Officer or designee a listing which limits transfers of funds to pre-authorized bank accounts only.

The listing will also contain the names of the City staff authorized to request such transfers and will be updated in writing for changes of authorized staff and bank accounts as necessary.

Transfers from one account of the City to another shall require the request of only one authorized staff member. Transfers from the City's account to third parties shall require the request of two authorized staff members.

11.0 Maximum Maturities:

To the extent possible, the City of Beverly Hills will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of Beverly Hills will not directly invest in securities maturing more than five (5) years from the date of purchase.

12.0 Internal Control and Audits:

The Chief Financial Officer shall establish an annual process of independent review by an external auditor. This review may be part of the City's annual financial audit performed by an independent certified public accountant which is designed to meet the requirements of the federal Single Audit Act of 1984 and related Office of Management and Budget Circular A-128 or at any other time as determined by the Chief Financial Officer.

13.0 Reporting and Investment Policy Adoption:

The Investment Committee, as defined in Section 5.0 of this policy, shall review and update this Investment Policy annually and present the written, updated policy to the City Council for consideration and adoption as provided in Government Code Section 53646. Quarterly Investment Reports shall be prepared and presented to the City Council for acceptance as provided in Government Code Section 53646.

TABLE 1

Investment Type	Dollar or Percent Limits (calculated separately for each agency's portfolio)	Maturity	Liquid
1. General Instruments			
State Investment Fund (LAIF)	The maximum set by LAIF	On demand	Yes
U.S. Treasury Bonds, Notes & Bills	None	Not to Exceed (NTE) 5 yrs.	Yes
U.S. Government Agencies	None	NTE 5 yrs.	Yes
Any obligation of the State of California or all obligations of a local agency of the State of California with a credit rating of "A1" or above before insurance.	25% of total portfolio	NTE 5 yrs.	Yes
2. Collateralized Investments			
Repurchase Agreements	20% of total portfolio	NTE 7 days	Yes
Time Deposits - Bank & Savings Assoc.	Maximum guaranteed by FDIC per Institution*	NTE 1 year	Yes
3. Uncollateralized Instruments			
Negotiable Certificates of Deposit	30% of total portfolio*	NTE 36 months	Yes
Medium Term Notes and Corporate Bonds rated "A" or above	30% of total portfolio**	NTE 5 years	Yes
Commercial Paper	25% of total portfolio	NTE 270 days	Yes
Bankers Acceptances	NTE 15%	NTE 180 days	Yes

*Percent Limit (30% of total portfolio) is a collective limit for Time Deposits & Negotiable Certificates of Deposits.
**Percent Limit is a collective limit as to Medium Term Notes & Corporate Bonds, which are governed by Gov. Code Sec. 53601(k).

4. Other Instruments			
Shares of "money market funds" which are sold without any sales commission or sales charge of any kind (true no-load funds) and are rated the highest ranking or highest letter and numerical rating provided by at least two nationally recognized statistical rating organizations	20% of total portfolio	On demand	Yes