

RESOLUTION NO. 4974

**A RESOLUTION ADOPTING THE STATEMENT OF INVESTMENT
POLICY EFFECTIVE APRIL 1, 2016**

The City Council of the City of El Segundo does resolve as follows:

SECTION 1: The City Council finds and declares as follows:

1. The City of El Segundo is required to have a Statement of Investment Policy that regulates the investment of public funds.
2. Pursuant to Government Code §53646(a), the City Treasurer may submit the Investment Policy to the local agency's legislative body as an agenda item at a public meeting.

SECTION 2: *Approval.* The City Council of the City of El Segundo approves the Statement of Investment Policy, attached as Exhibit A. The Statement of Investment Policy will take effect retroactively, as of April 1, 2016.

SECTION 3: The City Clerk is directed to certify the adoption of this Resolution, record this Resolution in the book of the City's original resolutions, and make a minute of this adoption of the Resolution in the City Council's records and the minutes of this meeting.

SECTION 4: This Resolution will become effective immediately and will remain effective unless repealed or superseded.

PASSED AND ADOPTED this 5th day of April, 2016.



Suzanne Fuentes,
Mayor

ATTEST:



Tracy Weaver, City Clerk

APPROVED AS TO FORM:

 For

Mark D. Hensley, City Attorney

CITY OF EL SEGUNDO



STATEMENT OF INVESTMENT POLICY

EFFECTIVE April 1, 2016

**Crista Binder, CTP, CFIP
City Treasurer**

CITY OF EL SEGUNDO
INVESTMENT POLICY
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City of El Segundo Investment Policy

1.0 Policy

The City of El Segundo Investment Policy (Policy) establishes the cash management and investment guidelines for the City Treasurer. The City of El Segundo invests public funds in a prudent manner with the primary objectives of, in priority order, safety of principal, adequate liquidity and investment return, in conformance with all State of California Code Sections (53600 and 53635 et seq.) and local statutes governing the investment of public funds.

State of California Code 53646 (a) (2) does not mandate that investment policies be updated annually. However, on an annual basis, the City Treasurer will report to the City Council any material changes to the policy as reviewed and approved by the City's Investment Advisory Committee (IAC). The IAC will be required to review and approve the policy annually.

The City Treasurer will prepare a quarterly report to the City council, City Manager and Director of Finance listing investment transactions made during the reporting period pursuant to Government Code Section 53607.

State of California Code (53607) still requires that the City Council delegate investment authority to the City Treasurer on an annual basis.

2.0 Scope

This investment policy applies to all investment activities and financial assets of the City under management by the City Treasurer. This policy pertains to the City funds which are pooled for investment purposes and funds held in depository agencies.

It is the City's policy to pool funds for investment purposes to maximize efficiencies, reduce transaction costs, streamline cash flow forecasting, and provide greater access to the market.

The pooled funds include:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Funds
- Debt Service Funds

Assets not under management of the City Treasurer are investments in the City's defined benefit plans, health savings plans, and pension plans.

3.0 Prudence

State of California Government Code Section 53600.3 states that "...all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing in public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

The City Treasurer and persons that the City Treasurer delegates to manage City investments, shall use the "Prudent Investor" standard. Investment officers acting in accordance with this Policy, written portfolio guidelines and procedures, and exercising due diligence shall be relieved of personal responsibility for individual security's credit risk or market price changes, provided deviations from expectations are reported in the quarterly investment reports to the City Council, and appropriate action is taken to control adverse developments.

When investing and managing City funds, the City Treasurer and employees shall act with care, skill, prudence and diligence to meet the aims of the investment objectives listed in order in Section 5.0, Investment Objectives.

4.0 Ethics and Conflict of Interest

The City Treasurer, employees involved in the investment process, and the members of IAC shall refrain from all personal business activity that could conflict with the management of the investment program. All individuals involved with the investment of City funds, or review of investment transactions, will be required to file a Form 700 – Statement of Economic Interests on an annual basis in accordance with California state law.

5.0 Investment Objectives

Safety: Safety of principal is the foremost objective of the investment program. Investments of the City of El Segundo shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City shall only invest in high quality securities and it shall diversify its investments in order that potential losses on individual securities do not exceed the income generated

from the remainder of the portfolio so as not to harm the City's cash flow and principal. The City shall also structure its portfolio so as to prevent the need to sell securities prior to maturity and it shall not take short positions, that is, selling securities that the City does not own.

Two risks are monitored to help ensure safety of the investments. They are credit risk and market or interest rate risk.

Credit Risk: Credit risk is defined as the risk of loss due to the failure of an issuer to redeem the outstanding debt at the stated maturity date. Within this concept, credit risk also applies to the overall market perception of the financial strength and capacity of the issuer. Diversification of the investment portfolio by issuer, maturity date and amount invested will ensure that in the event of a failure of any one issuer, the event will not unduly harm or compromise the City's cash flow.

Market or Interest Rate Risk: Market or Interest Rate risk is the risk that the market value of investment securities in the portfolio may decline due to changes in general interest rates. Market rate risk can be mitigated by diversifying the investment of funds by maturity date and by investing funds to a specific cash requirement that would reduce the need to sell the security prior to maturity to meet immediate City cash flow needs.

Liquidity: The City of El Segundo's investment portfolio will remain sufficiently liquid to meet all operating requirements that might be reasonably anticipated.

Return on Investments: The City of El Segundo shall manage funds to optimize the return on investments consistent with the two primary objectives of safety and liquidity. The rate of return on investment should be designed to attain a market rate of return through budgetary and economic cycles consistent with the risk limitations, prudent investment principles and cash flow requirements identified by the City's Investment Policy.

6.0 Delegation of Authority

Pursuant to State of California Code Section 53607, the City Council hereby authorizes the City Treasurer to invest and reinvest the City's funds, to sell or exchange securities so purchased, and to deposit securities for safekeeping in accordance with established procedures.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer. The City Treasurer may delegate all, or a portion of the investment authority to subordinates pursuant to State of California Government Code Section 41006. Such delegation by the City Treasurer shall not remove or abridge the Treasurer's investment responsibility.

The City Treasurer shall establish written procedures for the operation and management of the City's investment program consistent with this investment policy, including appropriate written agreements with financial institutions.

CITY OF EL SEGUNDO
7.0 - AUTHORIZED INVESTMENTS
Allowable Investment Instruments per State Government Code Applicable to All Local Agencies
As of January 1, 2016

INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS	CITY OF EL SEGUNDO IMPOSED RESTRICTIONS*
Local Agency Bonds	5 years	None	"A" Rating	10%
U.S. Treasury Obligations	5 years	None	None	None
State Obligations - CA and Others	5 years	None	None	10%
CA Local Agency Obligations	5 years	None	None	10%
U.S. Agency Obligations	5 years	None	None	None
Bankers' Acceptances	180 days	40%	None	Not Permitted
Commercial Paper-Pooled Funds	270 days	40% of the agency's money	"A-1" if the issuer has issued long-term debt it must be rated "A" without regard to modifiers**	10% (no more than 3% per issuer)
Commercial Paper-Non-Pooled Funds	270 days	25% of the agency's money	"A-1" if the issuer has issued long-term debt it must be rated "A" without regard to modifiers**	10% (no more than 3% per issuer)
Negotiable Certificates of Deposit	5 years	30% (combined with placement service CDs)	None	None
Non-negotiable Certificates of Deposit	5 years	None	None	None
Placement Service Deposits	5 years	30% (inclusive of placement service CDs)	None	10%
Placement Service Certificates of Deposit	5 years	30% (combined with negotiable CDs)	None	10%
Repurchase Agreements	1 year	None	None	Not Permitted
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	None	Not Permitted
Medium-Term Notes	5 years	30%	"A" Rating "if the issuer has issued long-term debt it must be rated "A" without regard to modifiers**	15% (no more than 3% per issuer)
Mutual Funds and Money Market Mutual Funds	N/A	20%	Multiple	5%
Collateralized Bank Deposits	5 years	None	None	None
Mortgage Pass-Through Securities	5 years	20%	"A" Rating	Not Permitted
County Pooled Investment Funds	N/A	None	None	Not Permitted
Joint Powers Authority Pool	N/A	None	Multiple	Not Permitted
Local Agency Investment Fund (LAIF) (Up To Maximum Allowed)	N/A	None	None	None
Voluntary Investment Program Fund	N/A	None	None	Not Permitted
Supranational Obligations	5 years	30%	"A A" Rating	10% and "A A A" Rating

* if less than State Code Maximum % of Portfolio

* Pursuant to Government Code Sections: 16340, 16429.1, 53601, 53601.8, 53635, 53635.2, 53635.8 and 53638

** Issuing corporation must be organized and operating within the U.S. and have assets in excess of \$500 million

8.0 Investment Pools/Mutual Funds

The City of El Segundo will be required to conduct a thorough investigation of any government sponsored pool and/or mutual fund prior to investing and on a continual basis. There shall be a questionnaire completed which will provide the following:

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement process), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, what size deposits and withdrawals are allowed.
5. A schedule for receiving statements and portfolio listings.
6. A description of how the pool/fund utilizes reserves, retained earnings, etc.
7. A fee schedule, including when and how fees are assessed.
8. The eligibility of the pool/fund to invest in bond proceeds and a description of its practices.

9.0 Diversification Guidelines

The City of El Segundo will diversify its investments by security type, issuer and maturity dates. Concentration limits are indicated in the Authorized Investments Section 7.0 for all investment categories except Treasury securities.

10.0 Maximum Maturities

To the extent possible, the City of El Segundo will attempt to match its investments with anticipated cash flow requirements. The City will not directly invest in securities maturing more than five (5) years from the date of purchase pursuant to Government Code Section 53601.

11.0 Benchmarks

The City of El Segundo Quarterly Investment Report will include benchmark reporting. The benchmark reporting will be used as a reference tool only to communicate investment performance against established benchmarks. The use of benchmarks will not imply that the City Treasurer will assume more risk to the portfolio as safety of principal and liquidity of funds are the first two primary objectives of the City's portfolio. The City will use the following benchmark to compare and evaluate portfolio performance.

Interpolated Yield: The market yield of US Treasury securities as compared to the portfolio's weighted average maturity (WAM) for the long-term and short-term investments in the portfolio.

12.0 Investment Advisory Committee

The City of El Segundo has established an Investment Advisory Committee (IAC) to provide advice and assistance of persons with experience in the investment field on the investment of City funds to ensure that City funds are invested in a safe and prudent manner.

The City of El Segundo Investment Advisory Committee (IAC) was established by City Council resolution 3764 on June 12, 1992.

The IAC shall have four (4) members appointed by the City Council to serve at their discretion. The committee members shall be the City Treasurer, the Director of Finance, one member who shall be a resident of the City of El Segundo and one member who may be a non-resident of the City. Desirable qualifications of IAC members include, but are not limited to, work experience or educational background in banking, investments or finance.

The IAC shall review and make recommendations on City investment policy and guidelines, list of banking institutions working with the City, list of brokers and dealers working with the City, and investments in the City portfolio. IAC members shall review and vote on recommendations of any new type of investment.

The IAC shall meet on a quarterly basis to discuss the City's investments and investment objectives.

The City Treasurer will prepare a quarterly report to the City council, City Manager and Director of Finance listing investment transactions made during the reporting period pursuant to Government Code Section 53607.

13.0 Collateralization

California Government Code, Sections 53652, et seq., requires depository institutions to post certain types and levels of collateral for public funds above the FDIC insurance amounts. The collateral requirements apply to bank deposits, both active (checking and savings accounts) and inactive (non-negotiable time certificates of deposit).

14.0 Safekeeping and Custody

The City of El Segundo shall require that all investment transactions be conducted through the delivery-versus-payment (DVP) process pursuant to Government Code Section 53601. Securities shall be held by a third party custodian designated by the City Treasurer and evidenced by safekeeping receipts pursuant to Government Code Section 53608.

15.0 Reporting

The City Treasurer will prepare a quarterly report to the City council, City Manager and Director of Finance listing investment transactions made during the reporting period pursuant to Government Code Section 53607. At a minimum, the quarterly report must include type of investment, issuer name, dollar amount of each security, date of maturity, par value, book value and current market value of securities, rate of interest, funds managed by contracted parties, percentage of the portfolio in each investment category, weighted average maturity, statement of ability to meet expenditure requirements for the next six months, and Treasurer indication of compliance with the City's Investment Policy.

In addition to the quarterly report, the City Treasurer will prepare a monthly statement of investments and transactions to the Director of Finance.

16.0 Internal Controls

The City Treasurer shall establish a system of written internal controls, which shall ensure compliance with this Investment Policy and state law. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, or imprudent actions of employees. The City Treasurer shall evaluate any audit reports in a timely manner with the Director of Finance.

Investment transactions and holdings shall be verified by the Director of Finance on a monthly basis and reviewed annually by the City's external auditor.

17.0 Authorized Financial Dealers and Institutions

The City Treasurer shall transact business only with banks, savings and loans, state and federal credit unions, and securities dealers. The Treasurer shall select and maintain a current list of broker/dealers, as defined by Corporations Code Section 25004, authorized to provide the City investment services. This list of broker/dealers shall be included in the Treasurer's quarterly investment report to the City Council. The broker/dealers shall meet the requirements of Government Code Section 53635.5 and Securities & Exchange Commission Rule 240.15c3-1 (uniform net capital rule). The Treasurer shall keep on file with the City an audited financial statement for each authorized broker/dealer's last complete fiscal year. Each authorized broker/dealer shall execute an acknowledgement that it has read the City's current Investment Policy and that it will abide by the terms and conditions of the Policy. Additionally, each such broker/dealer shall complete the questionnaire attached hereto. City funds shall only be placed in and invested with depositories that meet the requirements of Government Code Sections 53630 et seq.

18.0 Continuing Education

The City of El Segundo recognizes that employees engaged in investment and management of public funds should be provided with continuing education on all aspects of public fund management. At a minimum, the City Treasurer, Deputy Treasurer I and Deputy Treasurer II, should complete, at a minimum, five hours of continuing education in investment management on an annual basis through qualified institutions. Staff engaged in the management and investment process are encouraged to complete more than the minimum amount of continuing education as required in this policy. The Treasurer will include in the quarterly investment report the continuing education hours for the employees listed in this section.


CERTIFICATION

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) SS
CITY OF EL SEGUNDO)

I, Tracy Weaver, City Clerk of the City of El Segundo, California, do hereby certify that the whole number of members of the City Council of said City is five; that the foregoing Resolution No. 4975 was duly passed and adopted by said City Council, approved and signed by the Mayor, and attested to by the City Clerk, all at a regular meeting of said Council held on the 6th day of June, 2016, and the same was so passed and adopted by the following vote:

AYES: Mayor Fuentes, Mayor Pro Tem Jacobson, Council Member Atkinson,
 Council Member Fellhauer, Council Member Dugan
NOES:
ABSENT:
ABSTAIN:

WITNESS MY HAND THE OFFICIAL SEAL OF SAID CITY THIS 6th day of June, 2016.



Tracy Weaver, City Clerk
of the City of El Segundo,
California