

Honorable Mayor and Members
of City Council
City Hall
Torrance, California

Members of Council:

SUBJECT: Finance - Accept and File Investment Report for September 2020. Expenditure: None.

RECOMMENDATION

Recommendation of the Finance Director that City Council accept and file the Investment Report for the month of September 2020.

FUNDING

None required for this item.

BACKGROUND

On June 9, 2020, Your Honorable Body, through passage of Resolution No. 2020-48, adopted an official "Statement of Investment Policy" as recommended by the Finance Director. The City's Statement of Investment Policy requires the City Treasurer to report a monthly statement of investment activity.

Monthly Investment Report Summary

The City's investment objectives, in order of priority, shall be safety, which is investing in the highest quality securities, liquidity, which can be converted into cash and necessary to meet our cash flow disbursement requirements, and yield, which is earning a higher yield than the market rate of return.

September 2020 Investment Report

As of September 30, 2020 the ending balance of total funds was \$110,219,262, a decrease of approximately \$5.1M from the previous month; which included investments of \$102,176,586 and cash of \$8,042,676. Typically, the City experiences seasonal revenues of higher cash inflow from December through February and April through May and lower cash inflow from June through November. In addition, at the beginning of the fiscal year, the City experiences higher cash outflow, where the City makes payments for annual contracts and obligations.

The LAIF balance decreased by \$2M to \$39M. The investment activity for September 2020, included investments and redemptions of Local Agency Investment Funds. LAIF earned a yield of 0.685%, which is lower than the previous month in August by 9.9 basis points. LAIF funds are available on a daily basis and earns a higher yield than the benchmark of the 1-year and 2-year U.S. Constant Maturing Treasury (CMT) at .12% and .13%, respectively. The City is closely monitoring the daily LAIF rate, as the LAIF rate continues to trend downward.

There were no purchases of fixed income instruments during the month. One investment was redeemed, which consisted of one maturity, totaling \$ 245K.


The portfolio yielded 1.519% for September, a decrease of 2.2 basis points over the previous month of August. The effective rate of return for fiscal year-to-date yield is 1.610% compared to 2.130% a year ago.

Investment Committee Note

The Investment Committee members are the City Manager, City Attorney, Finance Director, City Treasurer, and Interim Deputy City Treasurer as created by your Honorable Body, has reviewed the attached report (Attachment B).

Respectfully submitted,

SHEILA POISSON
INTERIM FINANCE DIRECTOR

By 

Kristopher Awshee
Interim Deputy City Treasurer

CONCUR:



Sheila Poisson
Interim Finance Director



Aram Chaparyan
City Manager

Attachments:

- A) Detail Listing of Redemptions for September 2020
- B) Monthly Investment Report for September 2020



City of Torrance, California
Monthly Investment Portfolio Report
September 30, 2020

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City of Torrance, California
Investment Report Summary Notes
For the Month of: September 2020

Summary

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Redemptions

Redemption Issuer	Rating	Par Value (in millions)	Call Date	Maturity Date	Term Yr	Coupon	YTM	Disc/Par /Prem	Structure	Broker	Days/ Months Held	Called/Matured
The Park National Bank	FDIC	\$0.2	-	09/30/2020	3.5	1.95%	1.95%	Par	CD	Multi-Bank Securities	1280/42.7	Matured
		\$0.2										

Liquidity of the Portfolio

- ❖ A yield curve is typically defined as the difference between the 3-month and 10-year treasury rate which showed an upward slope. However, the City uses the 1-year and 5-year yield curve, as the City is allowed to purchase investments up to five years per the City's investment policy. The shape of the 1-year and 5-year yield curve also showed an upward slope, which means the 5-year is yielding higher than the 1-year by 16 basis points. As of September 30, 2020, the 1-year, 3-year and 5-year treasury yield was .12%, .16% and .28%, respectively.
- ❖ The City is in compliance with California Government Code Section 53646 which requires local agency to report its ability to meet pooled expenditure requirements for the next six (6) months. Over the next 6 months, cash, cash equivalents (LAIF) and inflows exceed cash outflows by

Prepared by the Finance Department for the Investment Advisory Committee



City of Torrance, California
Investment Report Summary Notes
For the Month of: September 2020

\$59.4M. Large cash outflows anticipated, consists of FY20/21 payment of pension costs.

Cash Activity/Balances projected over the next 6 months:

Cash Balance as of September 30, 2020	\$8.0M
LAIF Balance as of September 30, 2020	\$39.0M
Cash Inflow s	\$176.0M
Cash outflow s	<u>(\$163.6M)</u>
Net cash inflow	\$59.4M

Investment Comparison to Benchmark

As stated above for the month of September, the City's portfolio yielded 1.519%; which is a decrease of 2.2 basis points over the previous month of August. The effective rate of return for fiscal year-to-date is 1.610%. The 1-year and 2-year U.S. Constant Maturing Treasury (CMT) is at .12% and .13%, respectively. The City's portfolio has a current average maturity of 443 days or 1.21 years, which is a decrease of 8 days from the previous month. In a decreasing interest rate environment, it is expected the City's portfolio will usually compare favorably to its benchmark primarily due to the buy and hold trading philosophy.

The City's investment strategy remains the same, which is to place investments to mature during periods of upcoming cash flow needs. Given the current environment where LAIF is earning approximately 39 basis points over 2-year to 5-year fixed income instruments, and the requirement of having funds available to pay FY20/21 payment of pension costs, the City will continue to place monies in LAIF.

**Investment Report
September 2020**

Portfolio Highlights

RETURN	Current Month	Prior Month
City Portfolio YTM	1.519%	1.541%
U.S. Treasury Constant Maturity (2 year)	0.130%	0.140%
LAIF Monthly Return	0.685%	0.784%
INCOME	Current Month	Prior Month
Fiscal Year to Date	\$436,456.66	\$305,060.42
Current Month	\$131,396.24	\$141,210.50
MATURITY	Current Month	Prior Month
Days to Maturity	443	451
Days to Maturity (Prior Year)	463	608
Average Maturity (Years)	1.21	1.24
VOLUMES	Total Volume (\$)*	# of Transactions**
Purchases/Deposits*	\$5,345,318.76	0
Maturities/Redemptions*	\$7,679,230.00	1
EFFECTIVE RATE OF RETURN	Fiscal Year to Date	Prior Year to Date
Effective Rate of Return	1.610%	2.130%

*Includes LAIF and MMA activity

**Transaction count does not include LAIF or MMA activity

Portfolio Activity Summary

Month End	Year	# of Securities	Average Balance	Yield to Maturity 365 (%)	LAIF Rate	# of Investments Purchased	# of Investments Redeemed	Average Term	Average Days to Maturity
September	2019	117	138,173,302.03	2.107	2.280	0	11	994	463
October	2019	108	136,853,612.28	2.069	2.190	2	6	1,002	457
November	2019	109	139,209,231.68	2.024	2.103	7	4	1,007	471
December	2019	109	141,727,023.21	2.004	2.043	4	3	941	457
January	2020	106	153,083,971.66	1.973	1.967	0	0	922	430
February	2020	106	161,652,681.39	1.959	1.912	0	3	860	396
March	2020	103	156,591,322.64	1.913	1.787	0	2	858	381
April	2020	101	156,345,742.94	1.664	1.648	0	5	809	356
May	2020	96	161,602,868.99	1.482	1.363	0	6	756	341
June	2020	90	146,622,799.98	1.671	1.217	0	7	914	440
July	2020	83	116,877,391.14	1.588	0.920	0	3	986	462
August	2020	80	105,157,810.02	1.541	0.784	0	1	1,000	451
September	2020	79	100,504,694.86	1.519	0.685	0	1	1,020	443
	Average:	99	139,500,795.20	1.798%	1.608%	1	4	928	427

**Investment Report
September 2020**

Portfolio Summary

	Book Value (\$)	BV % of Portfolio	Market Value (\$)	MV % of Portfolio	S&P Rating	S/ % per Policy	Modified Duration	Days to Maturity	Maximum Term	YTM
Local Agency Investment Fund (LAIF)	\$ 38,953,834.13	38.12%	\$ 38,953,834.13	37.48%	LAIF	\$65Mil	0.000	1	N/A	0.685%
Union Bank Custodial - Money Market Account	\$ 278,591.20	0.27%	\$ 278,591.20	0.27%	A-1	100%	0.000	1	N/A	0.010%
U.S. Treasury Securities	\$ 5,964,298.16	5.84%	\$ 6,086,640.00	5.86%	AA+	100%	1.073	393	5-Year	1.964%
Federal Agency Issues	\$ 26,997,468.16	26.42%	\$ 27,483,679.00	26.45%		75%	1.670	627	5-Year	1.878%
Farmer Mac	\$ 3,000,000.00	2.94%	\$ 3,016,140.00	2.90%	NR/IMP	30%	0.290	106	5-Year	2.000%
Federal Farm Credit Bank	\$ 8,996,291.31	8.80%	\$ 9,197,560.00	8.85%	AA+	30%	3.278	1,249	5-Year	1.990%
Federal Home Loan Bank	\$ 10,476,176.85	10.25%	\$ 10,707,155.00	10.30%	AA+	30%	1.084	397	5-Year	1.998%
Federal National Mortgage Association	\$ 4,525,000.00	4.43%	\$ 4,562,824.00	4.39%	AA+	30%	0.718	262	5-Year	1.297%
Negotiable Certificates of Deposit	\$ 11,270,000.00	11.03%	\$ 11,754,492.40	11.31%	FDIC	20%	1.963	732	5-Year	2.277%
Municipal Bonds	\$ 530,000.00	0.52%	\$ 549,190.20	0.53%		10%	3.346	1,258	5-Year	1.716%
San Mateo Calif Un	\$ 530,000.00	0.52%	\$ 549,190.20	0.53%	Aaa	10%	3.346	1,258	5-Year	1.716%
Medium-Term Notes	\$ 18,182,394.27	17.80%	\$ 18,808,880.00	18.10%		20%	2.489	938	5-Year	2.173%
Apple Bank Savings	\$ 3,229,823.42	3.16%	\$ 3,401,320.00	3.27%	AA+	5%	3.813	1,441	5-Year	1.965%
Apple Inc.	\$ 2,452,493.39	2.40%	\$ 2,632,200.00	2.53%	AA+	5%	2.500	944	5-Year	3.200%
AUST & NZ BANKING GRP NY	\$ 2,502,838.87	2.45%	\$ 2,587,800.00	2.49%	AA-	5%	2.085	781	5-Year	1.995%
MicroSoft Corporation	\$ 3,994,272.94	3.91%	\$ 4,021,700.00	3.87%	AAA	5%	0.470	171	5-Year	1.922%
Toronto Dominion Bank	\$ 1,000,000.00	0.98%	\$ 1,004,640.00	0.97%	AA-	5%	0.202	74	5-Year	2.473%
Toyota Motor Credit Corp	\$ 5,002,966.15	4.90%	\$ 5,161,220.00	4.97%	AA-	5%	3.834	1,472	5-Year	2.034%
Total Investments:	\$ 102,176,585.92	100.00%	\$ 103,915,306.93	100.00%			1.195	443		1.519%
Cash In Bank (General):	\$ 6,648,205.84									
Cash In Bank (Housing):	\$ 1,394,470.02									
Total Funds:	\$ 110,219,261.78									

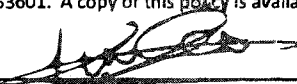
* Line items are calculated by formulas. There might be immaterial discrepancy between the summation of line items and the subtotal or grand total due to rounding issue.

I certify that this report accurately reflects all pooled investments and is in conformity with the City of Torrance Investment Policy Statement adopted by Resolution 2020-48 on June 9, 2020 per California Government Code §53601. A copy of this policy is available at the office of the City Clerk.

fiscal YTD
1.610%

Effective Rate of Return


Dana Cortez
City Treasurer


Kristopher Awshee
Interim Deputy City Treasurer

Date

10/27/2020

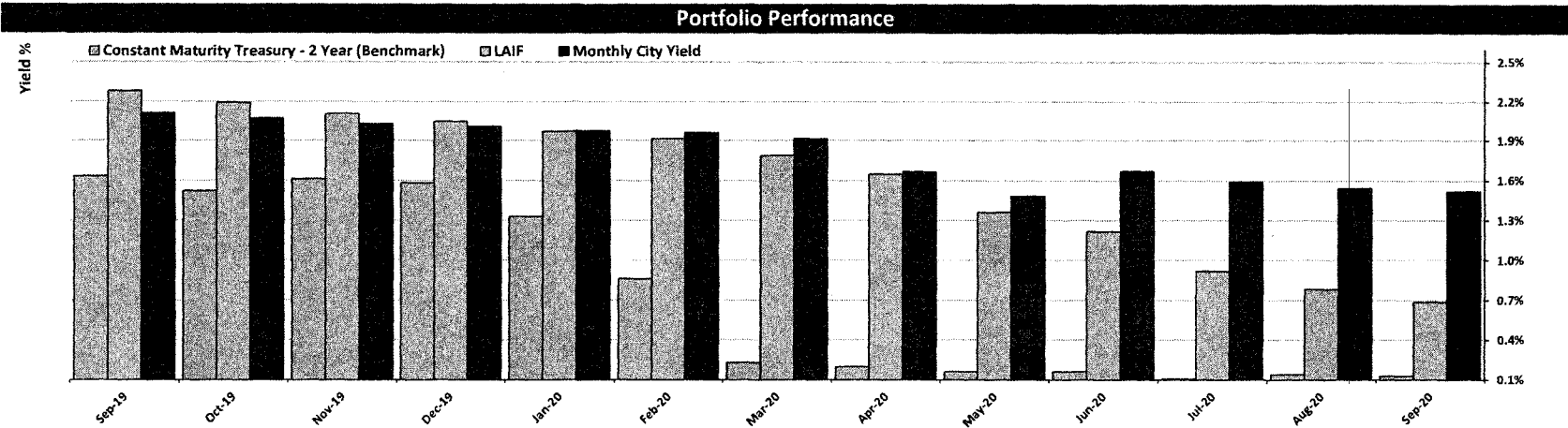
**Investment Report
September 2020**

Portfolio Monthly Activity Detail

Purchases	Broker	Purchase Date	Description	Quality Rating	Maturity Date	Term	Coupon (%)	YTM 365 (%)	Par Value (\$)	Book Value (\$)	Market Value (\$)
Investment Number											
Maturities/Calls /Sales	Broker	Purchase Date	Description	Quality Rating	Maturity/Call/ Sale Date	Days Held/Days to Maturity/Sale	Coupon (%)	YTM 365 (%)	Par Value (\$)	Book Value (\$)	Market Value (\$)
11245	Multi-Bank Securities, Inc.	3/30/2017	The Park National Bank	FDIC	9/30/2020	1280/1280	1.950%	1.950%	\$ 245,000.00	\$ 245,000.00	\$ 245,000.00
Annualized Yield / Totals								1.950%	\$ 245,000.00	\$ 245,000.00	\$ 245,000.00

UBOC	Beginning Balance	Coupon (%)	Yield (%)	Deposits (\$)	Withdrawals (\$)	Ending Balance (\$)	
Money Market	\$ 367,502.44	0.010%	0.010%	\$ 345,318.76	\$ 434,230.00	\$ 278,591.20	
LAIF	Beginning Balance	Coupon (%)	Yield (%)	Deposits (\$)	Withdrawals (\$)	Interest Earned (\$)	Ending Balance (\$)
General	\$ 40,953,834.13	0.685%	0.685%	\$ 5,000,000.00	\$ 7,000,000.00	\$ -	\$ 38,953,834.13
Totals	\$ 40,953,834.13	0.685%	0.685%	\$ 5,000,000.00	\$ 7,000,000.00	\$ -	\$ 38,953,834.13

**Investment Report
September 2020**



Portfolio Earnings Summary	Current Month	Fiscal YTD
CD/Coupon/Discount Investments:		
Interest Collected	100,315.28	232,969.27
Plus Interest at End of Period	235,234.63	235,221.48
Less Accrued Interest* at Beginning of Period	(235,143.95)	(163,894.94)
Interest Earned during this Period	\$100,405.96	\$304,295.81
Adjusted By Premiums/Discounts	7,163.78	21,689.24
Adjusted by Capital Gains or Losses (Unrealized)	0.00	0.00
Earnings during Periods	\$107,569.74	\$325,985.05
Cash/Checking Accounts:		
Interest Collected	3.48	229,416.07
Plus Accrued Interest* at End of Period	317,812.89	317,812.89
Less Interest at Beginning of Period	(293,989.87)	(436,757.35)
Interest Earned this Period	\$23,826.50	\$110,471.61
Total Interest Earned	\$124,232.46	\$414,767.42
Total Adjustments from Premium and Discounts	7,163.78	21,689.24
Total Capital Gains or Loss (Unrealized)	0.00	0.00
Total Earnings this Period	\$131,396.24	\$436,456.66

Notes :

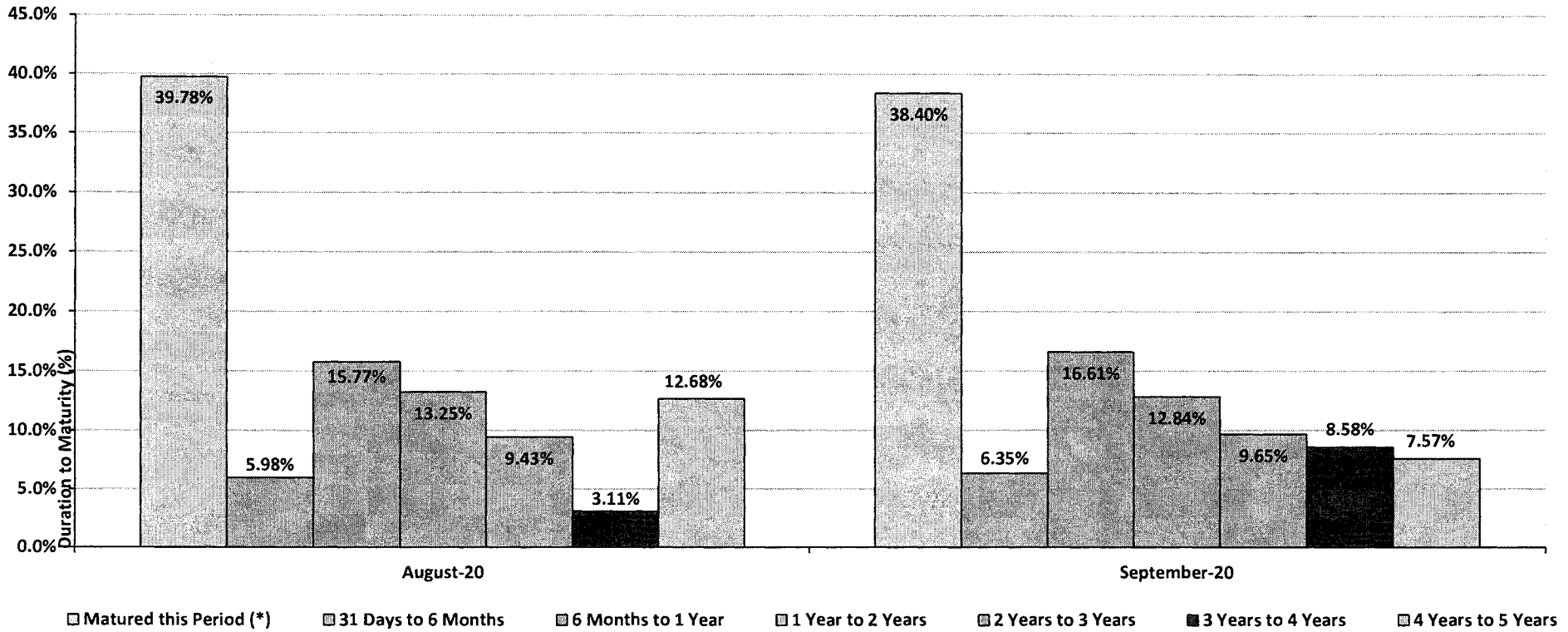
***Accrued Interest:** Interest that has accumulated between the most recent payment and the sale of a bond or other fixed-income security. At the time of sale, the buyer pays the seller the bond's price plus "accrued interest," calculated by multiplying the coupon rate by the fraction of the coupon period that has elapsed since the last payment. (If a bondholder receives \$40 in coupon payments per bond semiannually and sells the bond one-quarter of the way into the coupon period, the buyer pays the seller \$10 as the latter's proportion of interest earned.)

Adjusted by Premiums/Discounts represents the premium or discount cost involved to secure higher or lower yield securities. The cost of the premium or discount is amortized down or up respectively to par over the life of the bond until reaching maturity. By amortizing, the amount of taxable interest is reduced for each year the city owns the bond. This is because the amortized premium or discounts offsets the ordinary income of the coupon payment.

As long as a bond is held to maturity there will be no capital loss or gain to report.

Investment Report September 2020

Maturity Distribution



12

NOTE: SB 564 passed in 1995, effective February 1, 1996, requires that local agencies submit a quarterly report to the legislative body containing detailed information on all securities, investments, and monies of the local agency was eliminated by AB 2853 on September 29, 2004.

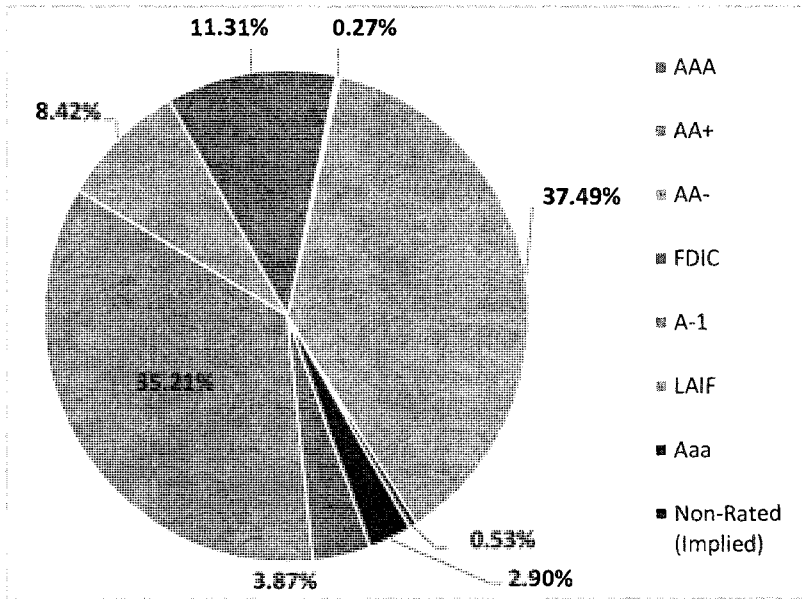
CA GC §53646(b)(3) requires a statement of compliance of the portfolio with the statement of investment policy and a statement of the local agency's ability to meet the expenditure requirements of the pool for the next six months. We are in compliance with the section.

* - Includes LAIF and Money Market Account due to its liquidity and maturity of one day.

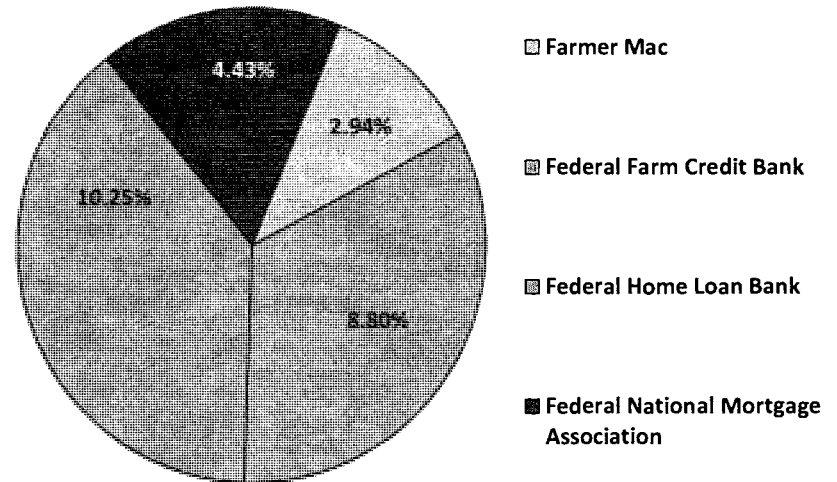
Investment Report September 2020

Portfolio Distribution

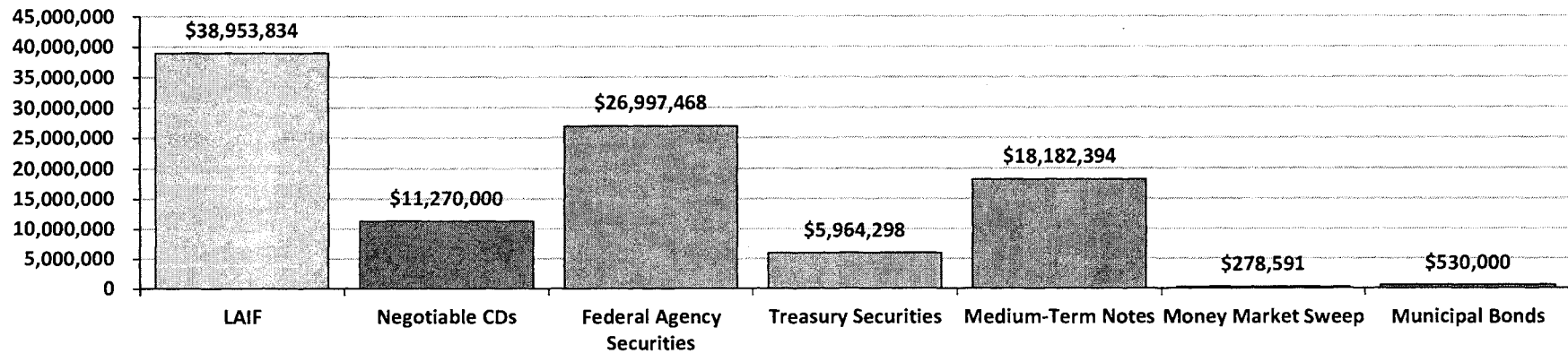
Assigned Credit Ratings of Investments (Total Portfolio)



Federal Agencies Distribution (26.42% of Total Portfolio Book Value)



Portfolio Sectors (Book Value)



**Investment Report
September 2020**

Value of Portfolio per GASB 31


	Beginning Investment Value As of July 1, 2020	Purchase / Redemption of Principal	Change in Market Value	Ending Investment Value As of September 30, 2020
U.S. Treasury Securities	6,104,980.00	-	(18,340.00)	6,086,640.00
Federal Agency (Coupon)	27,592,511.75	-	(108,832.75)	27,483,679.00
Negotiable Certificate of Deposits	12,968,107.11	(1,182,000.00)	(31,614.71)	11,754,492.40
Medium-Term Notes	18,820,955.00	-	(12,075.00)	18,808,880.00
Municipal Bonds	532,403.20	-	15,787.00	549,190.20
Sub-total per GASB 31:	66,018,957.06	(1,182,000.00)	(\$154,075.46)	64,682,881.60
Non-GASB				
Local Agency Investment Funds	51,725,044.71	(12,771,210.58)	-	38,953,834.13
Money Market	4,755,000.14	(4,476,408.94)	-	278,591.20
Federal Agency - Disc.	-	-	-	-
Treasury Security - Disc.	-	-	-	-
Certificate of Deposits - Disc.	-	-	-	-
Commercial paper	-	-	-	-
Sub-total Non-GASB:	56,480,044.85	(17,247,619.52)	-	39,232,425.33
Total Portfolio:	122,499,001.91	(18,429,619.52)	(154,075.46)	103,915,306.93


The Governmental Accounting Standards Board (GASB) has established Statement No. 31 for setting investment valuation standards. We report the unrealized gain/(loss) monthly and book realized gain/(loss) at year end as a GASB 31 requirement.


GASB 31 is a reporting requirement that reports the "Fair Value" of investments held in our portfolio. Fair value is the amount at which a financial instrument (investment) could be exchanged in a current transaction between willing parties at current market prices. It is important to understand the relationship between prevailing interest rates and fixed coupon investments. As market interest rates fall, the "Fair Value" of held securities will rise (unrealized Gains). The opposite occurs as market interest rates rise (market prices of held investments will fall). It should be noted that investments held in the city pool are to be held until maturity so both gains and losses (unrealized) will not be taken.


I certify that this report accurately reflects all pooled investments and is in conformity with the City of Torrance Investment Policy Statement adopted by Resolution 2020-48 on June 9, 2020, per California Government Code §53601. A copy of this policy is available at the office of the City Clerk.


Reviewed by the Investment Advisory Committee


 Dana Cortez
 City Treasurer Date: 10/28/2020


 Aram Chaparyan
 City Manager Date: 10-28-2020


 Patrick Q. Sullivan
 City Attorney Date: 10/28/2020


 Kristopher Awshee
 Interim Deputy City Treasurer Date: 10/28/2020


 Sheila Poisson
 Interim Finance Director Date: 10/28/2020

**Deputy Treasurer Monthly Reports
Portfolio Management
Portfolio Details - Investments
September 30, 2020**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM Days to Maturity	Maturity Date
Local Agency Investment Funds											
SYS10000	10000	Local Agency Invest Fund GEN'L		07/01/2019	38,953,834.13	38,953,834.13	38,953,834.13	0.685	LAIF	0.685	1
Subtotal and Average			37,137,167.46		38,953,834.13	38,953,834.13	38,953,834.13			0.685	1
Money Market Sweep Account											
31617510S	10001	Union Bank		07/01/2019	278,591.20	278,591.20	278,591.20	0.010	A-1	0.010	1
Subtotal and Average			189,995.96		278,591.20	278,591.20	278,591.20			0.010	1
Federal Agency Issues - Coupon											
3132X0MT5	11235	FARMER MAC		12/29/2016	3,000,000.00	3,016,140.00	3,000,000.00	2.000	IMP	2.000	106 01/15/2021
3133EHLH4	11295	FEDERAL FARM CREDIT BANK		04/05/2018	1,000,000.00	1,028,380.00	989,367.65	1.875	AA+	2.551	608 06/01/2022
3133EKRP3	11319	FEDERAL FARM CREDIT BANK		06/21/2019	3,000,000.00	3,033,540.00	3,000,000.00	2.220	AA+	2.220	1,359 06/21/2024
3133EKRD0	11323	FEDERAL FARM CREDIT BANK		07/10/2019	1,000,000.00	1,028,960.00	998,761.20	1.875	AA+	1.950	621 06/14/2022
3133EKP75	11348	FEDERAL FARM CREDIT BANK		10/09/2019	2,000,000.00	2,102,600.00	2,011,345.44	1.600	AA+	1.451	1,447 09/17/2024
3133ELBF0	11359	FEDERAL FARM CREDIT BANK		12/11/2019	2,000,000.00	2,004,080.00	1,996,817.02	1.890	AA+	1.930	1,518 11/27/2024
3130A8QS5	11221	FEDERAL HOME LOAN BANK		08/25/2016	2,000,000.00	2,015,800.00	1,998,249.87	1.125	AA+	1.240	286 07/14/2021
3130A8QS5	11230	FEDERAL HOME LOAN BANK		09/30/2016	1,000,000.00	1,007,900.00	999,198.93	1.125	AA+	1.230	286 07/14/2021
3130AABG2	11234	FEDERAL HOME LOAN BANK		12/16/2016	1,000,000.00	1,019,980.00	996,715.55	1.875	AA+	2.175	424 11/29/2021
313378CR0	11246	FEDERAL HOME LOAN BANK		03/29/2017	2,000,000.00	2,060,520.00	2,000,000.00	2.250	AA+	2.010	526 03/11/2022
3130ADUD2	11294	FEDERAL HOME LOAN BANK		03/19/2018	1,500,000.00	1,523,625.00	1,499,910.27	2.500	AA+	2.510	239 05/28/2021
313379Q69	11305	FEDERAL HOME LOAN BANK		05/31/2018	2,000,000.00	2,066,480.00	1,982,623.54	2.125	AA+	2.670	617 06/10/2022
3130AGMG7	11322	FEDERAL HOME LOAN BANK		07/10/2019	1,000,000.00	1,012,850.00	999,478.69	1.900	AA+	1.976	256 06/14/2021
3136G3N92	11220	FEDERAL NATIONAL MORT ASSOC		07/29/2016	2,525,000.00	2,549,644.00	2,525,000.00	1.350	AA+	1.350	299 07/27/2021
3135G0K69	11223	FEDERAL NATIONAL MORT ASSOC		08/25/2016	2,000,000.00	2,013,180.00	2,000,000.00	1.250	AA+	1.230	217 05/06/2021
Subtotal and Average			26,996,572.69		27,025,000.00	27,483,679.00	26,997,468.16			1.878	627
Treasury Securities - Coupon											
912828S27	11233	U.S.TREASURY NOTE		12/15/2016	2,000,000.00	2,015,000.00	1,988,567.55	1.125	AA+	1.930	272 06/30/2021
912828S27	11237	U.S.TREASURY NOTE		02/09/2017	2,000,000.00	2,015,000.00	1,991,072.88	1.125	AA+	1.750	272 06/30/2021
912828XW5	11273	U.S.TREASURY NOTE		11/29/2017	1,000,000.00	1,028,320.00	995,778.54	1.750	AA+	2.004	637 06/30/2022
912828XW5	11286	U.S.TREASURY NOTE		01/31/2018	1,000,000.00	1,028,320.00	988,879.19	1.750	AA+	2.426	637 06/30/2022
Subtotal and Average			5,962,863.58		6,000,000.00	6,086,640.00	5,964,298.16			1.964	393
Medium Term Notes											
037833DM9	11350	Apple Bank Savings		11/25/2019	1,000,000.00	1,046,560.00	994,816.92	1.800	AA+	1.938	1,441 09/11/2024
037833DM9	11357	Apple Bank Savings		12/12/2019	2,250,000.00	2,354,760.00	2,235,006.50	1.800	AA+	1.978	1,441 09/11/2024

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CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM Days to Maturity	Maturity Date
Medium Term Notes											
037833AK6	11301	Apple Inc		05/04/2018	2,500,000.00	2,632,200.00	2,452,493.39	2.400	AA+	3.200	944 05/03/2023
05253JAW1	11358	AUST & NZ BANKING GRP NY		12/13/2019	2,500,000.00	2,587,800.00	2,502,838.37	2.050	AA-	1.995	781 11/21/2022
594918BG8	11199	MicroSoft Corp		11/05/2015	2,000,000.00	2,000,100.00	2,000,000.00	2.000	AAA	1.944	33 11/03/2020
594918BP8	11265	MicroSoft Corp		08/28/2017	2,000,000.00	2,021,600.00	1,994,272.94	1.550	AAA	1.900	311 08/08/2021
89114QBC1	11201	Toronto Dominion Bank		12/14/2015	1,000,000.00	1,004,640.00	1,000,000.00	2.500	AA-	2.473	74 12/14/2020
89236TGN9	11349	Toyota Motor Credit Corp		10/22/2019	2,000,000.00	2,019,800.00	2,000,000.00	2.125	AA-	2.125	1,482 10/22/2024
89236TGL3	11356	Toyota Motor Credit Corp		11/22/2019	3,000,000.00	3,141,420.00	3,002,966.15	2.000	AA-	1.974	1,467 10/07/2024
Subtotal and Average			18,181,261.83		18,250,000.00	18,808,880.00	18,182,394.27			2.173	938
Municipal Bonds											
799017VY1	11353	San Mateo Calif UN		11/07/2019	250,000.00	258,105.00	250,000.00	1.689	N/A	1.689	1,065 09/01/2023
799017VZ8	11354	San Mateo Calif UN		11/07/2019	280,000.00	291,085.20	280,000.00	1.739	N/A	1.739	1,431 09/01/2024
Subtotal and Average			530,000.00		530,000.00	549,190.20	530,000.00			1.716	1,258
Negotiable CD											
319141GV3	11254	First Bank of Highland		07/19/2017	245,000.00	253,920.45	245,000.00	2.150	FDIC	2.150	656 07/19/2022
33767A4N8	11262	First Bank of Puerto Rico		08/25/2017	245,000.00	254,594.20	245,000.00	2.200	FDIC	2.201	693 08/25/2022
32056GCS7	11277	First Internet Bank of Indiana		12/18/2017	245,000.00	256,911.90	245,000.00	2.350	FDIC	2.350	809 12/19/2022
33583FAC6	11275	First Northeast Bk of Nebraska		12/15/2017	245,000.00	256,314.10	245,000.00	2.250	FDIC	2.251	805 12/15/2022
33715LAV2	11268	First Tech Credit Union		10/16/2017	245,000.00	255,530.10	245,000.00	2.250	FDIC	2.252	746 10/17/2022
88413QCK2	11355	Third Federal Savings and Loan		11/25/2019	245,000.00	261,515.45	245,000.00	1.950	FDIC	1.952	1,516 11/25/2024
02587CFU9	11261	American Express		08/29/2017	245,000.00	254,981.30	245,000.00	2.400	FDIC	2.401	697 08/29/2022
01748DBA3	11283	Allegiance Bank		02/07/2018	245,000.00	259,026.25	245,000.00	2.600	FDIC	2.601	859 02/07/2023
02007GKC6	11316	Ally Bank		06/06/2019	245,000.00	254,792.65	245,000.00	2.500	FDIC	2.502	613 06/06/2022
02587DV47	11257	American Express Cent #27471		08/08/2017	245,000.00	254,493.75	245,000.00	2.350	FDIC	2.351	676 08/08/2022
08173QBX3	11269	Beneficial Bank		10/18/2017	245,000.00	255,040.10	245,000.00	2.150	FDIC	2.151	747 10/18/2022
108622FT3	11251	Bridgewater Bank		06/29/2017	245,000.00	252,996.80	245,000.00	2.000	FDIC	2.002	636 06/29/2022
12325EHV7	11258	Business Bank		07/20/2017	245,000.00	253,454.95	245,000.00	2.050	FDIC	2.051	656 07/19/2022
14042RHM6	11259	Capital One#4297		08/23/2017	245,000.00	255,304.70	245,000.00	2.350	FDIC	2.351	691 08/23/2022
15118RTC1	11351	CELTIC BANK		11/27/2019	245,000.00	260,523.20	245,000.00	1.850	FDIC	1.852	1,518 11/27/2024
17312QJ26	11297	CITIBABNK na		04/11/2018	245,000.00	261,880.50	245,000.00	2.900	FDIC	2.900	922 04/11/2023
20033ASX5	11231	Comenity Capital Bank		10/31/2018	245,000.00	248,599.05	245,000.00	1.750	FDIC	1.751	393 10/29/2021
27113PCE9	11285	EAST BOSTON SAVINGS BANK MA		01/30/2018	245,000.00	258,372.10	245,000.00	2.500	FDIC	2.501	851 01/30/2023
29278TAH3	11290	ENERBANK usa		02/16/2018	245,000.00	259,457.45	245,000.00	2.650	FDIC	2.650	868 02/16/2023
307811BR9	11278	Farmers and Merchants BK of WI		12/21/2017	245,000.00	256,394.95	245,000.00	2.250	FDIC	2.252	811 12/21/2022
33847E2J5	11312	Flagstar Bank		06/12/2019	245,000.00	254,900.45	245,000.00	2.500	FDIC	2.500	620 06/13/2022

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CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM Days to Maturity	Maturity Date
Negotiable CD											
40434AP45	11202	Household Finance Co		03/10/2016	245,000.00	247,993.90	245,000.00	2.750	FDIC	2.024	160 03/10/2021
45581EAS0	11296	INDUSTRIAL COM BK CHINA USA		04/05/2018	245,000.00	261,674.70	245,000.00	2.900	FDIC	2.903	909 03/29/2023
45581EAR2	11288	INDUSTRIAL & COMMERCIAL BK OF		02/14/2018	245,000.00	259,425.60	245,000.00	2.650	FDIC	2.653	866 02/14/2023
49228XAK6	11360	Kern Schools Federal Credit Un		12/30/2019	245,000.00	254,591.75	245,000.00	1.900	FDIC	1.902	820 12/30/2022
499724AA0	11276	Knoxville TVA Credit Union		12/07/2017	245,000.00	256,473.35	245,000.00	2.300	FDIC	2.302	797 12/07/2022
51507LBD5	11232	Landmark Community Bank		11/10/2016	245,000.00	248,716.65	245,000.00	1.600	FDIC	1.601	405 11/10/2021
538036CP7	11243	Live Oak Banking Company		04/08/2017	245,000.00	247,582.30	245,000.00	2.100	FDIC	2.102	188 04/07/2021
549103YK9	11224	Luana Savings Bank		09/09/2016	245,000.00	248,160.50	245,000.00	1.350	FDIC	1.351	343 09/09/2021
62384RAB2	11267	MOUTAIN AMERICA CREDIT UNION		10/12/2017	245,000.00	255,711.40	245,000.00	2.300	FDIC	2.303	741 10/12/2022
57116AQV3	11284	MARLIN BUSINESS BANK		01/30/2018	245,000.00	258,359.85	245,000.00	2.500	FDIC	2.503	851 01/30/2023
583626AE6	11287	MECHANICS COOP BANK		02/05/2018	245,000.00	258,722.45	245,000.00	2.550	FDIC	2.550	858 02/06/2023
58733ADJ5	11229	mercantil Commercebank Nationa		09/28/2016	245,000.00	248,324.65	245,000.00	1.650	FDIC	1.651	362 09/28/2021
61747MH46	11282	Morgan Stanley Bank		01/25/2018	245,000.00	259,148.75	245,000.00	2.650	FDIC	2.426	846 01/25/2023
61760AG52	11311	Morgan Stanley Private Bank		06/13/2019	245,000.00	265,991.60	245,000.00	2.600	FDIC	2.600	1,351 06/13/2024
67054NAK9	11249	Numerica Credit Union		06/21/2017	245,000.00	254,165.45	245,000.00	2.300	FDIC	2.301	628 06/21/2022
66612ACG1	11289	NORTHFIELD BANK		02/21/2018	245,000.00	253,036.00	245,000.00	2.450	FDIC	2.450	509 02/22/2022
74160NFN5	11253	Prime Alliance Bank		07/05/2017	245,000.00	253,006.60	245,000.00	2.000	FDIC	2.001	637 06/30/2022
74267GVT1	11244	Private Bank & Trust Co #33306		03/30/2017	245,000.00	252,695.45	245,000.00	2.200	FDIC	2.201	545 03/30/2022
75472RAN1	11352	Raymond James BK		11/26/2019	245,000.00	260,513.40	245,000.00	1.850	FDIC	1.852	1,517 11/26/2024
795450D36	11260	Sallie Mae Bank		08/23/2017	245,000.00	255,304.70	245,000.00	2.350	FDIC	2.351	691 08/23/2022
8562846V1	11241	STATE BANK of INDIA		03/14/2017	245,000.00	252,984.55	245,000.00	2.350	FDIC	2.351	529 03/14/2022
90348JCR9	11303	UBS Bank		05/30/2018	245,000.00	264,396.65	245,000.00	3.150	FDIC	3.152	971 05/30/2023
91435LAG2	11302	University of Iowa		05/15/2018	245,000.00	263,446.05	245,000.00	3.050	FDIC	3.052	956 05/15/2023
92937CJP4	11309	WEX BK MIDVALE UTAH		06/07/2019	245,000.00	246,131.90	245,000.00	2.500	FDIC	2.500	67 12/07/2020
949763BH8	11228	Wells Fargo Bank		09/28/2016	245,000.00	248,929.80	245,000.00	1.700	FDIC	1.701	362 09/28/2021
Subtotal and Average			11,506,833.33		11,270,000.00	11,754,492.40	11,270,000.00			2.277	732
Total and Average			100,504,694.86		102,307,425.33	103,915,306.93	102,176,585.92			1.519	443

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**CASH AND INVESTMENTS RECONCILIATION
AS OF SEPTEMBER 30, 2020**

INVESTMENTS PER PORTFOLIO SUMMARY		\$ 102,176,585.92
Cash in Bank of America General Account	\$ 6,648,205.84	
Cash in Bank of America Housing Account	<u>1,394,470.02</u>	
		8,042,675.86
TOTAL FUNDS PER INVESTMENT REPORT		\$ 110,219,261.78
OUTSTANDING WARRANTS:		
General Account	\$ (2,630,490.59)	
Payroll Account	-	
Workers' Compensation Account	(169,707.48)	
Housing Account	<u>(6,614.00)</u>	
		(2,806,812.07)
DEPOSITS IN TRANSIT:		
September 2020 Minol cash collection	\$ 515,851.63	
September 2020 Cash deposits	17,221.02	
September 2020 Credit card receipts	45,570.59	
September 2020 Accele Wires	<u>2,370.00</u>	
		581,013.24
OTHER RECONCILING ITEMS:		
George Hill fees and credits in transit	<u>\$ (40.00)</u>	
		(40.00)
TOTAL CASH AND INVESTMENTS PER BOOKS		\$ 107,993,422.95

Notes to Investment Report

1. REPORTING ENTITY

City of Torrance was established May 31, 1921 and adopted a city charter form of government on January 7, 1947.

Under City Charter section 630 CITY TREASURER. It shall be the duty of the City Treasurer to receive and safely keep all moneys which shall come into his/her hands as City Treasurer. He/She shall comply with all provisions of law governing the deposit and securing of public funds. He/She shall also comply with all the provisions of the general laws of the State governing the handling of such trust funds as may come into his/her possession. He/She shall pay out moneys only on warrants signed by persons designated by law, or ordinance, as the proper persons to sign warrants and as to trust funds which may come into his/her possession or control by virtue of some law, ordinance or resolution, by warrant or other order, in accordance with the provisions of such law, ordinance or resolution. He/She shall at regular intervals, at least once each month, submit to the Director of Finance a written report and accounting of all receipts, disbursements and fund balances, a copy of which report he/she shall file with the City Council.

The City Treasurer may appoint a deputy, or deputies, from an eligible list to be prepared in accordance with the proceedings prescribed in the civil service system of the City, such deputy or deputies to receive such compensation as may be provided by the City Council. (Ratified Gen. Mun. Elec. 4/10/56, Amend. No. 8; Approved by State Legislature Concurrent Res. No. 3 on 1/9/57).

2. BASIS FOR REPORTING

This Investment Report has been prepared in accordance with the State of California Government Code §53600 and City of Torrance Investment Policy as noted in the City Charter. The City of Torrance Investment Policy is approved and adopted annually by City Council. The Investment Policy is annually submitted by the City Treasurer to the Investment Advisory Committee for review before being forwarded to the City Council. The investment Advisory Committee is made up of City Treasurer, City Manager, City Attorney, Finance Director, and Deputy City Treasurer.

3. ASSUMPTIONS

The Investment Report represents a specific snapshot in time and is compared to other market performers during that same period which includes but is not limited to: Constant Maturing Treasury 2-year term rates, Local Agency Investment Fund (State of California), and prior year performance. All investment activity calculations are results from SymPro portfolio management software v7.3.6.

Adjusted by Premiums/Discounts represent the premium/discount cost involved to secure higher or lower yield securities. The cost of the premium or discount is amortized down or up to par over the life of the bond until reaching maturity. By amortizing, the amount of taxable interest is reduced for each year the city owns the bond. This is because the amortized premium or discount offsets the ordinary income of the coupon payment.

There is no capital loss or gain to report if bonds are kept to maturity.

Notes to Investment Report

4. COMPLIANCE

The Investment Report is required to be submitted to City Council on a monthly basis. State of California statutes requires quarterly reporting. GASB 31 section requires market changes be booked annually but reported monthly as part of this report. SB 564 requires quarterly reporting to the legislative body.

5. LAIF RISK

LAIF statute §16429.3 Deposits; prohibited transfers and loans; impoundment or seizure:
Moneys placed with the Treasurer for deposit in the Local Agency Investment Fund by cities, counties, special districts, nonprofit corporations, or qualified quasi-governmental agencies shall not be subject to either of the following:

- a. Transfer or loan pursuant to Section 16310, 16312, or 16313.
- b. Impoundment or seizure by any state official or state agency

LAIF statute §16429.4 Right of withdrawal:

The right of a city, county, city and county, special district, nonprofit corporation, or qualified quasi-governmental agency to withdraw its deposited moneys from the Local Agency Investment Fund, upon demand, may not be altered, impaired, or denied, in any way, by any state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year.

Additional information about LAIF may be found on the California State Treasurer Website:
<http://www.treasurer.ca.gov/pmia-laif/answer/laifstatutes.asp>

Glossary

ACCRUED INTEREST. Interest that has accumulated between the most recent payment and the sale of a bond or other fixed-income security. At the time of sale, the buyer pays the seller the bond's price plus "accrued interest," calculated by multiplying the coupon rate by the fraction of the coupon period that has elapsed since the last payment. (If a bondholder receives \$40 in coupon payments per bond semiannually and sells the bond one-quarter of the way into the coupon period, the buyer pays the seller \$10 as the latter's proportion of interest earned.)

AGENCIES. Also referred to as Federal Agencies or Fed Agencies and include such organizations or enterprises as the: Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Banks (FFCB), and Government National Mortgage Association (GNMA). See FEDERAL AGENCIES or the specific organization/enterprise in this glossary for additional information.

AMORTIZATION. The spreading out of capital expenses for intangible assets over a specific period of time (usually over the asset's useful life) for accounting and tax purposes. Amortization is similar to depreciation, which is used for tangible assets, and to depletion, which is used with natural resources.

ASKED. The price at which securities are offered.

BANKER'S ACCEPTANCE ("BA"). A draft, bill, or exchange accepted by a bank or a trust company. Both the issuer and the accepting institution guarantee payment of the bill.

BASIS POINT. Common unit of measure used for expressing changes in interest rates; one basis point equates to 1/100th of 1%. (i.e. 0.1% equals 10 basis points.)

BID. The price offered by a buyer of securities (when one sells securities, one asks for a bid). See "Offer".

BOND. Bonds are commonly referred to as fixed-income securities and are one of the three main generic asset classes, along with stocks (equities) and cash equivalents. Many corporate and government bonds are publicly traded on exchanges, while others are traded only over-the-counter (OTC).

BROKER. A broker is an individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor. It is also the role of a firm when it acts as an agent for a customer and charges the customer a commission for its services.

BULLET BOND. Bullet Bonds are non-callable bonds, which cannot be redeemed early by the issuer.

CALLABLE BOND. A bond that can be redeemed by the issuer earlier than the bond's maturity date. Callable bonds with specific details as to when the bond may be called back are noted. Embedded options attached to callable bonds detail how the issuer may "call" back the security. Three forms of embedded options for callable bonds are:

- *American Option:* Bond may be called back by the issuer at any time after the lockout period expires. (continuously callable)
- *Bermudian Option:* The issuer has the right to call the bond on the predetermined interest payment dates only.
- *European Option:* Allows the holder to exercise the option (i.e. to buy) only on the option expiration date.
- *1X:* One time callable only
- *6M:* Callable only after predetermined 6 month lockout period.

CERTIFICATE OF DEPOSIT ("CD"). A time deposit with a specific maturity, as evidenced by a certificate. Large-

Glossary

denomination CDs are typically negotiable. A certificate of deposit (CD) is a savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks and are insured by the FDIC. The term of a CD generally ranges from one month to five years.

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.

COMPREHENSIVE ANNUAL FINANCIAL REPORT ("CAFR"). The official annual report for the City of Torrance. It includes combined statements for each individual fund and account group, which are prepared in conformity with GAAP. It also includes supporting schedules that are necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed statistical section.

CORPORATE BOND/NOTES. A debt security issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations.

COUPON. The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. It can also be a certificate attached to a bond, which evidences interest due on a payment date. The annual interest rate paid on a bond, expressed as a percentage of the face value.

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: (1) delivery versus payment (DVP); and (2) delivery versus receipt (DVR). DVP is delivery of securities with an exchange of money for the securities. DVR is delivery of securities with an exchanged of a signed receipt for the securities.

DERIVATIVES. (1) Financial instruments that are linked to, or derived from, the movement of one or more underlying indexes or securities, and may include a leveraging factor; or (2) financial contracts based upon a notional amount whose value is derived from an underlying index or security (e.g., interest rates, foreign exchange rates, equities, or commodities).

DISCOUNT. The difference between the acquisition cost of a security and its value at maturity, when quoted at lower than face value. A security that sells below original offering price shortly after sale is also considered to be at a discount. In finance, discount refers to the condition of the price of a bond that is lower than par, or face value. The discount equals the difference between the price paid for a security and the security's par value.

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

DIVERSIFICATION. Dividing investment funds among a variety of securities that offer independent returns.

FEDERAL AGENCIES. Special government organizations set up for a specific purpose such as the management of resources, financial oversight of industries or national security issues. These organizations are typically created by legislative action, but may initially be set up by a Presidential Order as well. The directors of these agencies are typically selected by Presidential appointment. A number of these organizations issue securities such as stocks and bonds that have been historically popular with investors. Agencies of the Federal Government that were established to supply credit to various classes of institutions and individuals (e.g., S&Ls, small business firms,

Glossary

students, farmers, farm cooperative, and exporters).

FEDERAL DEPOSIT INSURANCE CORPORATION ("FDIC"). A federal agency that insures bank deposits, currently up to \$ 250,000.00 per deposit.

FEDERAL FARM CREDIT BANK ("FFCB"). In the United States, a network of federally-chartered financial institutions designed to provide credit-related services to the agricultural and farming sectors of the economy. In total, this government-sponsored enterprise comprises approximately 100 financial institutions that serve all 50 states and Puerto Rico

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

FEDERAL HOME LOAN BANKS ("FHLB"). Government-sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions, and insurance companies. The mission of the FHLBs is to liquefy the housing-related assets of its member, who must purchase stock in their District Bank. FHLB - An organization created by the Federal Home Loan Bank Act of 1932 to increase the amount of funds available for lending institutions who provide mortgages and similar loan agreements to individuals. This system was created in response to the depressive economic conditions of the era, which had impaired the U.S. banking system.

FEDERAL HOME LOAN MORTGAGE CORP ("Freddie Mac or FHLMC"). FHLMC is a stockholder-owned, government-sponsored enterprise (GSE) chartered by Congress in 1970 to keep money flowing to mortgage lenders in support of homeownership and rental housing for middle income Americans. The FHLMC purchases, guarantees and securitizes mortgages to form mortgage-backed securities. The mortgage-backed securities that it issues tend to be very liquid and carry a credit rating close to that of U.S. Treasuries.

FEDERAL NATIONAL MORTGAGE ASSOCIATION ("FNMA"). FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act of 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). 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 assures and guarantees that all security holders will receive timely payment of principal and interest. Fannie Mae is a publicly-traded company which operates under a congressional charter that directs Fannie Mae to channel its efforts into increasing the availability and affordability of homeownership for low-, moderate- and middle-income Americans.

FEDERAL OPEN MARKET COMMITTEE ("FOMC"). The FOMC consist of seven members of the Federal Reserve Board and five of the 12 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. Also known as "The Fed." 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 about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATIONS ("GNMA" or "Ginnie Mae"). Securities that influence the volume of bank credit that is guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan

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associations, and other institutions. The full faith and credit of the U.S. Government protect a security holder. Ginnie Mae securities are backed by the FHA, VA, or FMHM mortgages. The term "pass-through" is often used to describe Ginnie Maes.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD ("GASB"). An organization whose main purpose is to improve and create accounting reporting standards or generally accepted accounting principles (GAAP). These standards make it easier for users to understand and use the financial records of both state and local governments. The Government Accounting Standards Board (GASB) is funded and monitored by the Financial Accounting Foundation (FAF).

IMPLIED RATING ("IMP"). Government Sponsored Enterprises ex: Federal Home Loan Bank, Federal Home Loan Mortgage Corp, Federal National Mortgage Association each carrier the rate of the US Treasury. There are GSE that are not officially rated by a credit rating agency but carry an implied rating because they are GSE. An example of this is Farmer Mac.

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 bid and asked prices is narrow, and reasonable size can be done at those quotes.

LOCAL AGENCY INVESTMENT FUND ("LAIF"). Monies from local governmental units may be remitted to the California State Treasurer for deposit in this special fund for the purpose of investment.

LOCKOUT (BOND FEATURE). The period of time when a security may not be redeemed by the issuer.

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

MASTER REPURCHASE AGREEMENT. A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes 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 corporate note continuously offered by a company to investors through a dealer. Investors can choose from differing maturities, ranging from nine months to 30 years.

MONEY MARKET. The market in which short-term debt instruments (e.g., bills, commercial paper, and banker's acceptances) are issued and traded.

NOT RATED ("NR"). GSE (government sponsored enterprises) or any security that are not officially rated by a credit rating agency.

OFFER. The price asked by a seller of securities (when one buys securities, one asks for an offer). See "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.

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PORTFOLIO. A collection of securities that an investor holds.

PREMIUM - A premium is the total cost of an option. The difference between the higher price paid for a fixed-income security and the security's face amount at issue.

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 RULE. An investment standard. A fiduciary, such as a trustee, may invest in a security if it is one that would be bought by a prudent investor acting in like capacity, who is seeking reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES. A financial institution that: (1) does not claim exemption from the payment of any sales, compensating use, or ad valorem taxes under the laws of this State; (2) has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability; and (3) has been approved by the Public Deposit Protections Commission to hold public deposits.

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 them to an investor with an agreement to repurchase the securities 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 structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: when the Fed is said to be doing RP, it is lending money (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. An agency created by Congress to administer securities legislation for the purpose of protecting investors in securities transactions.

SEC RULE 15c3-1. See "Uniform Net Capital Rule." SEC Rule 15c3-1 requires broker-dealers to maintain the following minimum net capital requirements in order to offer sufficient protection for the firm's customers:

- \$250,000 for broker-dealers who conduct general securities business and carry customer funds and securities
- \$50,000 for broker-dealers who introduce accounts to another broker-dealer on a fully disclosed basis, receive but do not hold customer securities for delivery to the clearing broker-dealer and do not carry customer accounts
- \$25,000 for broker-dealers that only handle mutual fund transactions and do not hold customer funds or securities
- \$5,000 for broker-dealers who do not directly or indirectly receive securities from customers (known as introducing brokers)

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STEP-UP BOND. A bond that pays an initial coupon rate for the first period, and then a higher coupon rate for the following periods. A step-up bond is one in which subsequent future coupon payments are received at a higher, predetermined amount than previous or current periods. These bonds usually have a callable component.

STRUCTURED NOTES. Notes issued by instrumentalities (e.g., FHLB, FNMA, SLMA) and by corporations, that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) in their debt structure. The market performance of structured notes is affected by fluctuating interest rates; the volatility of imbedded options; and shifts in the yield curve.

TAX AND REVENUE ANTICIPATION NOTES (TRANS). Notes issued in anticipation of receiving future tax receipts and revenues at a future date.

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

TREASURY BONDS. Long-term, coupon-bearing U.S. Treasury securities that are issued as direct obligations of the U.S. Government, and having initial maturities of more than 10 years.

TREASURY NOTES. Medium-term, coupon-bearing U.S. Treasury securities that are issued as direct obligations of the U.S. Government, and having initial maturities of two to 10 years. U S Notes - A treasury note is a marketable U.S. government debt security with a fixed interest rate and a maturity between one and 10 years. Treasury notes can be bought either directly from the U.S. government or through a bank.

UNIFORM NET CAPITAL RULE. SEC requirement that member firms, as well as non-member broker-dealers in securities, maintain a maximum ratio of indebtedness to liquid capital of 15 to one. Also called net capital rule and net capital ratio. Indebtedness covers all money that is owed to a firm, including margin loans and commitments to purchase securities (one reason that new public issues are spread among members of underwriting syndicates). Liquid capital includes cash and assets easily converted to 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.

YIELD TO MATURITY (YTM). The percentage rate of return paid on a bond or note if the investor buys and holds it to its maturity date. The calculation for YTM is based on the coupon rate, length of time to maturity, and market price. It assumes that coupon interest paid over the life of the bond will be reinvested at the same rate.

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