

CITY OF WILDOMAR

STATEMENT OF INVESTMENT POLICY

I. INTRODUCTION

The City Council of the City of Wildomar (the “City”) and its subsidiary district, the Wildomar Cemetery District, recognizes its responsibility to prudently direct the investment of the City’s funds on behalf of the City’s existing and future residents while conforming to all state and local statutes governing the investment of public funds. The City Council further recognizes that the City’s investment assets are essential to the City’s financial strength, the effective implementation of long-range financial plans, and ultimately its ability to respond to the needs of the community.

The investment policies and practices of the City of Wildomar take into consideration that California statutes authorize the City of Wildomar to finance acquisition or construction of various projects and capital assets through the issuance and sale of municipal securities, including but not limited to general obligation bonds and revenue bonds. Depending on the type and the authority for the issuance and sale of the bond, the City’s general fund and/or certain sources of city revenue may be pledged as security for the bonds. The bonding and the resulting security interest in city funds and revenue may supercede all or portions of this Policy.

This Statement sets forth policies which shall govern the investment of the City’s funds. It will be used by the City’s Administrative Services Director and other City officials and staff, as well as all other third-party providers of investment or investment-related services. Its purpose is to direct the prudent investment and protection of the City’s funds and investment portfolio.

II. SCOPE

This Investment Policy applies to all financial assets of the City of Wildomar. The following funds are covered by this Investment Policy and are accounted for in the City's Annual Comprehensive Financial Report:

- A) General Fund
- B) Special Revenue Funds
- C) Debt Service Funds
- D) Capital Project Funds
- E) Enterprise Funds
- F) Internal Services Funds
- G) Trust and Agency Funds
- H) Any new funds created by the City Council

This Investment Policy does not apply to proceeds of bond issues and retirement funds held in trusts.

III. PRUDENCE

Investments shall be made in the context of the "Prudent Investor" standard pursuant to Government Code Section 53600.3 which states in relevant part that:

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

All investments purchased shall have daily liquidity or a final stated maturity date, upon which the full principal value of the security will be received. Although the investment will mature at full principal value, it is recognized that the market will vary throughout the life of the security. In a diversified portfolio it must be further recognized that occasional measured losses are inevitable due to economic, bond market, or individual security credit analysis. These occasional losses must be evaluated and considered within the context of the overall return.

The "Prudent Investor" standard shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

IV. OBJECTIVE

The intent of the investment program is to ensure City funds are available to meet the short- and long-term cash flow demands of the City. To achieve this intent, the primary objectives for City's investment activities, in priority order, shall be:

A. Safety of Principal

Safety of principal is the foremost objective of the City of Wildomar. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value. To attain this objective, the City will diversify its investments by investing funds among a variety of securities

and approved financial institutions. The City shall seek to preserve principal by mitigating the two types of risk in order of importance: credit risk and market risk.

1. **Credit Risk** Credit risk, defined as the risk of loss due to failure of an issuer of a security, shall be mitigated by purchasing U.S. Treasuries or high-grade securities. All investments beyond Treasury securities will be diversified so that the failure of any one issuer would not unduly harm the City's cash flow. Credit risk shall also be mitigated by prequalifying financial institutions, broker/dealers, intermediaries, and advisors with which the City does business.
2. **Market or Interest Rate Risk** Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by structuring investments so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in shorter-term securities. The cash flow is updated on a daily basis and will be considered prior to the investment of securities, which will reduce the necessity to sell investments for liquidity purposes. Long-term securities shall not be purchased for the sole purpose of short-term speculation. .

B. Liquidity

This refers to the ability to "cash in" at any moment in time with a minimal chance of losing some portion of principal or accrued interest. Liquidity is an important quality especially when the need for unexpected funds occurs. The City's cash management system is designed to accurately monitor and forecast expenditures and revenues to enable the City to invest its funds to the fullest extent possible while ensuring appropriate liquidity is maintained to City to meet all operating requirements which might be reasonably anticipated.

C. Return On Investments

The City's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio. A benchmark does not imply that the Administrative Services Director will add additional risk to the portfolio in order to attain or exceed the benchmark.

V. DELEGATION OF AUTHORITY

The City Council on an annual basis adopts a resolution approving the Investment Policy. The Investment Policy authorizes the Administrative Services Director to invest or deposit the City's funds in accordance with California Government Code Sections 53600 and 53630 et seq. and all related State and Federal laws.

In the Administrative Services Director's absence, and subject to City Council approval, the Administrative Services Director may assign investment responsibilities to the City Manager. The Administrative Services Director will provide prior written notification to the City Manager and the City Council regarding the assignment of responsibilities. In the event that the Administrative Services Director is unable to assign responsibility, the City Manager may select a designee. In addition, at the discretion of the Administrative Services Director, cash monitoring and investment responsibilities can be assigned to a designated assistant and a surety bond will be obtained by the City for said assistant.

The responsibility for establishing, monitoring, and maintaining a strong system of investment controls and directing an independent audit of the investment function is delegated to the City Manager. The City Manager's designee(s) may assist in carrying out these functions.

The City Council's primary responsibilities over the investment function include establishing investment policies, annually reviewing such policies, reviewing monthly investment reports issued by the Administrative Services Director and authorizing any deviations from the City's Investment Policy.

As permitted by Government Code 53601, the Administrative Services Director may delegate day-to-day investment decision making and execution authority to an investment advisor. Eligible investment advisors must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisors Act of 1940. The advisor will follow the Policy and such other written instructions as are provided.

VI. ETHICS AND CONFLICTS OF INTEREST

The Administrative Services Director and other employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. The Administrative Services Director and investment employees shall disclose any material interests in financial institutions with which they conduct business within their jurisdiction. They shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio and shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City. The Administrative Services Director and investment employees are required to file annual disclosure statements as required by the Fair Political Practices Commission (FPPC). During the course of the year, if there is an event subject to disclosure that could impair the ability of the Administrative Services Director or investment employees to make

impartial decisions, the City Council will be notified in writing within 10 days of the event.

VII. QUALIFIED DEALERS

The City shall transact investments only with banks, savings and loans, investment security dealers and the State of California Local Agency Investment Fund. The purchase by the City of any investment, other than those purchased directly from the issuer, shall be purchased directly from an institution licensed by the State as a broker/dealer, as defined in Section 25004 of the Corporations Code, who is a member of the Financial Industry Regulatory Authority (FINRA), or a member of a Federally regulated securities exchange, a National or State Chartered Bank, a Federal or Savings Association, or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank. Exceptions to this rule will be made only after thorough research and documented confirmation of financial strength and reputation and after approval by the City Manager. Investment staff shall investigate dealers who wish to do business with the City in order to determine if they are adequately capitalized, market securities appropriate to the City's needs, and are recommended by managers of portfolios similar to the City's.

The City shall at least annually send a copy of the current investment policy to all dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered as evidence that the dealer understands the City's investment policies and intends to show the City only appropriate investments.

If the City has contracted with an investment advisor to provide investment services, the investment advisor may use their own list of approved issuers, brokers/dealers, and financial institutions with which to conduct transactions on the City's behalf.

VIII. AUTHORIZED AND SUITABLE INVESTMENTS

The investments set forth in this section are authorized investments pursuant to Section 53601 et seq. of the Government Code and are authorized investments for the City subject, however, to the prohibitions set forth in Section X of this Investment Policy. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters will take precedence. Percentage holding limits listed in this Policy apply at the time the security is purchased. Credit ratings, where shown, specify the minimum credit rating category required at purchased. In the event a security held by the City is subject to a credit rating change that brings it below the minimum credit ratings specified in this Policy, the Administrative Services Director should notify City Council of the change in the next monthly investment report. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rate drops, and the market price of the security.

- A. U.S. Treasury Instruments.** United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio that may be invested in this category.
- B. Federal Agency Securities.** Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There is no limitation as to the percentage of the portfolio that may be invested in this category.

- C. Municipal Bonds**

City Bonds – Bonds issued by the city, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the City or by a department, board, agency, or authority of the City that is rated in a rating category of “A” long term, or “A-1” short term, the equivalent or higher by a nationally recognized statistical rating organization (NRSRO).

California State Bonds – Registered state warrants or treasury notes or bonds of the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the State or by a department, board, agency, or authority of the State that are rated in a rating category of “A” long term, or “A-1” short term, the equivalent or higher by a NRSRO.

CA Local Agency Bonds. Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency that are rated in a rating category of “A” long term, or “A-1” short term, the equivalent or higher by a NRSRO.

Other 49 States’ Bonds – Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California and any of the other 49 states, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency that are rated in a rating category of “A” long term, or “A-1” short term, the equivalent or higher by a NRSRO.

A maximum of 30% of the portfolio may be invested in this category.

- D. Supranational Obligations.** United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the

International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by a NRSRO. A maximum of 30% of the portfolio may be invested in this category.

- E. Medium-Term Notes.** Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Purchases are limited to securities rated in a rating category of “A” or its equivalent or better by an NRSRO. A maximum of 30% of the portfolio may be invested in this category.
- F. Asset-Backed Securities.** A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond with a maximum remaining maturity of five years or less. Securities shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO. A maximum of 20% of the City’s portfolio may be invested in this category.
- G. Deposits.** FDIC insured or fully collateralized bank deposits, including, but not limited to, demand deposit accounts, savings accounts, market rate accounts, and certificates of deposits in financial institutions located in California. The amount on deposit in any financial institution shall not exceed the shareholder’s equity. To be eligible to receive City deposits, the financial institution must have received a minimum overall satisfactory rating, under the Community Redevelopment Act, for meeting the credit needs of California Communities in its most recent evaluation. Bank deposits are required to be collateralized as specified under Government Code Section 53630 et seq. The Finance Director may waive the collateralization requirements for any portion that is covered by federal deposit insurance. The City shall have a signed agreement with any depository accepting City funds per Government Code Section 53649. There is no limit on the percentage of the portfolio that may be invested in this category. However, a maximum of 10 percent of the portfolio may be invested in time deposits.
- H. Negotiable Certificates of Deposit.** Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association, or a federal association (as defined by section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases are limited to securities rated in a rating category of “A” (long-term) or “A-1” (short-term) or their equivalents or better by an NRSRO. A maximum of 30% of the portfolio may be invested in this category.

I. Bankers' Acceptance Notes. Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 40 percent of the agency's moneys that may be invested pursuant to this section.

J. Commercial Paper. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):

- (1) The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation; (B) Has total assets in excess of five hundred million dollars (\$500,000,000), and (C) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or better by an NRSRO.
- (2) The entity meets the following criteria: (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company, (B) Has program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond, and (C) Has commercial paper that is rated "A-1" or better, or the equivalent, by an NRSRO.

Purchases are limited to securities that have a maximum maturity of 270 days. A maximum of 25% of the portfolio may be invested in this category.

K. Money Market Funds ("MMF"). Purchases are restricted to Government Money Market Funds. Furthermore, these Money Market Funds must have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs, or (B) Retained an investment advisor with not less than five years' experience and registered or exempt from registration with the SEC, with assets under management in excess of five hundred million dollars (\$500,000,000). Whenever the City has any funds invested in a MMF, the Finance Director shall maintain on file a copy of the MMF's current information statement. A maximum of 20% of the portfolio may be invested in this category.

L. State of California's Local Agency Investment Fund (LAIF). The maximum amount invested in this category may not exceed the limit set by LAIF for operating accounts.

M. Joint Powers Authority Investment Pools. Joint Powers Authority Investment Pools are organized pursuant to Section 6509.7 of the Government Code that invests in the securities and obligations under Sections 53601 of the California Government Code. To be eligible for City investments, the joint powers authority issuing the shares shall have retained an investment adviser that is registered or exempt from registration with the Securities and Exchange Commission, the

adviser has not less than five years of experience investing in the securities and obligations authorized in under Section 53601 and the adviser has assets under management in excess of five hundred million dollars (\$500,000,000). There is no limitation as to the percentage of the portfolio that may be invested in this category.

IX. PROHIBITED INVESTMENTS AND TRANSACTIONS

The City shall not invest in any investment authorized by the Government Code, but not explicitly listed in this Policy without the prior approval of the City Council. Furthermore, range notes, reverse repurchase agreements, zero coupon bonds, inverse floaters, common stocks, futures, options, mortgage-derived, interest-only strips and derivatives are prohibited from use in the City's investment portfolio.

The City shall not engage in securities lending, short selling, or other hedging strategies. The City shall not purchase or sell securities on margin.

X. SAFEKEEPING AND CUSTODY

All deliverable security transactions entered into by the City shall be conducted on a delivery-versus-payment basis. Securities will be held by a third party custodial designated by the Administrative Services Director and evidenced by safekeeping receipts.

XI. DIVERSIFICATION

The City operates its investment pool with many State and self-imposed constraints. It does not speculate. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

The City will diversify its investments by security type, institution, and maturity/call dates. With the exception of U.S. Treasury securities, federal agency securities, Supranational securities, and authorized pools, no more than 5% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

XII. MAXIMUM MATURITIES

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. For those investment types for which this Policy does not specify a maturity limit, no individual investment shall exceed a maturity of five years from the

date of purchase unless the City Council has granted express authority to make that investment either specifically or as a part of an investment program approved by the City Council no less than three months prior to the investment.. The weighted average maturity of the funds will be limited to three years or less.

Debt service reserve funds may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

XIII. INTERNAL CONTROL

The Administrative Services Director shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with the City's Investment Policy and for establishing internal controls that are designed to prevent losses due to fraud, negligence, and third-party misrepresentation.

Internal controls deemed most important shall include (but not limited to): avoidance of collusion; separation of duties and administrative controls; separating transaction authority from accounting and record keeping; custodial safekeeping; clear delegation of authority; management approval and review of investment transactions; specific limitations regarding securities losses and remedial action; written confirmation of telephone transactions; documentation of investment transactions and strategies; and monitoring of results.

XIV. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. An appropriate performance benchmark shall be established against which portfolio performance shall be compared on a regular basis. The selected performance benchmark shall be representative of the City's overall investment objectives and liquidity requirements.

The City may employ an active management approach that allows for the sale of securities prior to their scheduled maturity dates for purposes of improving the portfolio's credit quality, liquidity, or return in response to changing market conditions or the City's circumstances.

XV. REPORTING

The Administrative Services Director shall provide the City Council monthly investment reports which provide a clear picture of the status of the current investment portfolio. The management report shall include a list of transactions, the type of investments, the issuers, maturity dates, par values, and the current market values of each component of

the portfolio, including funds managed for the City by third party safekeeping custodians. The report will also include the source of the portfolio valuation. As specified in California Government Code Section 53646 (e), if all funds are placed in LAIF or FDIC-insured accounts, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that the City will meet its expenditure obligations for the next six months as required by California Government Code Section 53646 (b)(3) and that the City's portfolio is in compliance with this investment policy, or the manner in which the portfolio is not in compliance as required by California Government Code Section 53646 (b)(2). The Administrative Services Director shall maintain a complete and timely record of all investment transactions.

XVI. INVESTMENT POLICY ADOPTION

The City's investment policy shall be adopted annually by resolution of the City Council. The policy shall be reviewed annually by the City Council and any modifications made thereto must be approved by the City Council.