BOARD POLICY

Policy	Investment	Original Adoption Date	May 25, 2023
Approval Date	August 28, 2025	Resolution No.	2025-08

PURPOSE AND SCOPE:

The San Diego Community Power ("Community Power") Investment Policy ("Policy") establishes investment guidelines for protecting Community Power's cash reserves, deposits, and investments (collectively, "Funds") while producing a reasonable rate of return on investments.

This Policy articulates: (1) the objectives and priorities for Community Power investments; (2) the types of investments that are permitted and prohibited; and (3) the controls Community Power will implement to ensure investments are protected.

This Policy is adopted pursuant to California Government Code Section ("Section") 53600-53608 and must be adopted or amended by resolution. The Community Power Board of Directors ("Board") is not required to adopt a formal Investment Policy by statute, however, it is in the best practice to ensure agency assets are protected.

BACKGROUND:

On October 1, 2019, the founding members of Community Power adopted the Joint Powers Agreement (JPA) which was amended and restated on December 16, 2021.

Section 3.2.12 of the JPA specifies that the Board may at its discretion adopt rules, regulations, policies, bylaws and procedures governing the operation of Community Power.

Further, Section 4.5.5 of the JPA states that one of the general purposes of the Board is to set policy.

Section 5.10.2(C) of the JPA states that one of the primary purposes of the Financial and Risk Management Committee (FRMC) is to review and recommend to the Board financial policies and procedures to ensure equitable contributions by parties consistent with a recommendation for Board approval of the Policy herein. Further, this section states the FRMC may have such other responsibilities as may be approved by the Board, including but not limited to, advising the Chief Executive Officer on fiscal and risk management policies and procedures, rules and regulations governing investment of surplus funds, audits to achieve best practices in corporate governance, selection and designation of financial institutions for deposit of Community Power funds, and credit/depository matters.

INVESTMENT OBJECTIVES:

To the extent possible, investments will align with Community Power's mission, vision, value, and goals. When managing Funds, Community Power's primary objectives shall be to (1) safeguard the principal of the Funds, (2) meet the liquidity needs of Community Power, (3) achieve a return on Funds invested, and (4) exercise a high standard of care on Funds within Community Power's control.

1) **Safety:** Safety of principal is the foremost objective of cash and investment management activities. The investment of Funds shall be undertaken in a manner that seeks to ensure the preservation of principal.
2) **Liquidity:** The Funds of Community Power shall remain sufficiently liquid to meet all operating needs that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the investment of Funds in deposits or instruments that are available on demand is recommended.
3) **Return on Investments:** Community Power's deposit and investment portfolio shall be designed with the objective of attaining a market rate of return throughout the economic cycle while considering investment risk and liquidity constraints. The return on deposits and investments is of secondary importance compared to the safety and liquidity objectives described in Investment Objectives, Section (1) and Investment Objectives, Section (2), above.
4) **Standard of Care:** Community Power will manage the Funds in accordance with the "Prudent Investor Standard" pursuant to California Government Code Section 53600.3[1] as follows:

   "All governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds 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, 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."

[1] All further statutory references are to the California Government Code unless otherwise stated.

DELEGATION OF AUTHORITY:

Pursuant to Section 53607, the Board has the authority to delegate the responsibility to manage Community Power's funds to the Treasurer. The Treasurer has authority to appoint Deputy Treasurer(s) as the Treasurer deems necessary to carry out the duties in accordance with the Policy.

Community Power may engage the services from one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of Community Power's investment portfolio in a manner consistent with Community Power's Policy. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with the investment objective set forth in this Policy.

Scope

This Policy applies to all funds and investment under the direct authority of Community Power. This Policy does not apply to the investment of bond proceeds, which would be governed by any applicable bond documents, and any other funds specifically exempted by the Board.

Acceptable Investment Types: To the extent possible, investments will align with Community Power's mission, vision, value, and goals.

1. **Deposits at Bank(s):** Funds may be invested in non-interest-bearing depository accounts to meet Community Power's operating and collateral needs and grant requirements. Funds not needed for these purposes may be invested in interest-bearing depository accounts or Federal Deposit Insurance Corporation (FDIC) insured certificates of deposit with maturities not to exceed five (5) years. Banks eligible to receive deposits will be federally or state chartered and will conform to Section 53635.2 which requires that banks "have received an overall rating of not less than 'satisfactory' in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code." As per Section 53652, banks must collateralize the deposits of public agencies in an amount equal to no less than 110% of as currently stated in the value of the deposits. The Treasurer will monitor the credit quality of eligible banks holding Community Power deposits that exceed FDIC insurance limits to ensure the safety of Community Power deposits. There are no limits on the dollar amount or percentage that Community Power may invest in collateralized bank deposits.

2. **Local Agency Investment Fund (LAIF):** Funds may be invested in the Local Agency Investment Fund established by the California State Treasurer for the benefit of local agencies. LAIF's investments in instruments prohibited by or not specified in Community Power's policy do not exclude the investment in LAIF itself from Community Power's list

of allowable investments, provided LAIF's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio.

3. **US Treasury Obligations:** Funds may be invested in United States Treasury obligations with a term to maturity not exceeding five (5) years and subject to the limitations set forth in Sections 53601 et seq. and 53635 et seq.

4. **Federal Agency Securities:** Funds may be invested in Federal Agency Securities or Government-Sponsored Enterprise (GSE) obligations with a term to maturity not exceeding five (5) years and subject to the limitations set forth in Sections 53601 et seq. and 53635 et seq. No more than 20% of the total portfolio may be invested in callable agency securities and no more than 30% of the total portfolio may be invested in any single Agency/ GSE issuer.

5. **Bankers' Acceptances:** Funds may be invested in Banker's Acceptances provided that they are issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one Nationally Recognized Statistical Rating Organization (NRSRO). Not more than 40% of the portfolio may be invested in Bankers' Acceptances, and no more than 5% of the portfolio may be invested in any single issuer. The maximum maturity shall not exceed 180 days.

6. **Negotiable Certificates of Deposit:** Funds may be invested in negotiable certificates of deposit in accordance with the requirements of Section 53601 and 53601.8, and subject to the following limitations:

   A. Issued by an entity as defined in Section 53601(i); and

   B. No more than 30% of the total portfolio shall be invested in certificates of deposit, no more than 5% of the total portfolio may be invested in any single issuer, and the maximum maturity does not exceed 5 years.

7. **Placement Service Deposits:** Funds may be invested in deposits placed with a private sector entity that assists in the placement of deposits with eligible financial institutions located in the United States (Section 53601.8). No more than 30% of the total portfolio may be invested in a combination of qualifying placement service deposits. The full amount of principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. Under a provision sunsetting on January 1, 2031, no more than 50% of the portfolio may be invested in deposits through a placement service. The maximum maturity shall not exceed five (5) years.

8. **Money Market Funds:** Funds may be invested in money market funds pursuant to Section 53601(l)(2) and subject to Section 53601(l)(4). No more than 20% of the portfolio

may be invested in the shares of any one Money Market Fund. No more than 20% of the total portfolio may be invested in these securities.

9. **Commercial Paper:** Funds may be invested in commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by an NRSRO. The entity that issues the commercial paper must meet all of the following conditions in either paragraph A or paragraph B below:

   A. The entity meets the following criteria: (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of five hundred million dollars ($500,000,000), and (iii) has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.

   B. The entity meets the following criteria: (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and (iii) has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

   - No more than 10% of the outstanding commercial paper of any single issuer.
   - No more than 25% of Community Power's investment assets under management may be invested in Commercial Paper. Under a provision sunsetting on January 1, 2026, no more than 40% of the total portfolio may be invested in Commercial Paper if Community Power's investment assets under management are greater than $100,000,000.
   - No more than 5% of the total portfolio may be invested in any single issuer. The maximum maturity does not exceed 270 days.

10. **Medium Term Notes (MTN):** The issuer is a corporation 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 (Section 53601 et seq). The securities are rated in a rating category of "A" or its equivalent or better by at least one NRSRO. No more than 30% of the total portfolio may be invested in MTNs, no more than 5% of the total portfolio may be invested in any single issuer and the maximum maturity does not exceed five (5) years.

11. **Pass Thru Securities:** Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations (Section 53601 et seq) from issuers not defined in sections 3 and 4 of the Acceptable Investment Types section of this Policy, provided that, the securities are rated in a rating category of "AA" or its equivalent or better by an NRSRO, no more than 20% of the total portfolio may be invested in these securities, no more than 5% of the total portfolio may be invested in any single Asset-Backed or

Commercial Mortgage security issuer and the maximum maturity does not exceed five (5) years.

12. **Municipal Securities:** These include obligations of Community Power, the State of California and any local agency within the State of California (Section 53601). provided that, the securities are rated in a rating category of “A” or its equivalent or better by at least one NRSRO, no more than 5% of the total portfolio may be invested in any single issuer, no more than 30% of the total portfolio may be in Municipal Securities and the maximum maturity does not exceed five (5) years.

13. **Municipal Securities:** Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California (Section 53601). The securities are rated in a rating category of “A” or its equivalent or better by at least one NRSRO, no more than 5% of the total portfolio may be invested in any single issuer, no more than 30% of the total portfolio may be in Municipal Securities and the maximum maturity does not exceed five (5) years.

14. **Supranationals:** Issues are US 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. (Section 53601). The securities are rated in a rating category of “AA” or its equivalent or better by an NRSRO, no more than 30% of the total portfolio may be invested in these securities, no more than 10% of the total portfolio may be invested in any single issue and the maximum maturity does not exceed five (5) years.

15. **Local Government Investment Pools (LGIPs):** Shares of beneficial interest issued by a Joint Powers Authority (JPA) organized pursuant to California Government Code Section 6509.7 that invest in the securities and obligations authorized in subdivisions (a) to (r), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the JPA. To be eligible under this section, the JPA issuing the shares will have retained an investment adviser who is registered with the SEC (or exempt from registration), has assets under management in excess of five hundred million dollars ($500,000,000), and has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q) of Government Code Section 53601, inclusive.

PROHIBITED INVESTMENT TYPES:

Pursuant to Section 53601.6, Community Power shall not invest Funds in any security that could result in a zero-interest accrual, or less, if held to maturity. These prohibited investments include, but are not limited to, inverse floaters, range notes, or mortgage-derived interest-only strips. The purchase of foreign currency denominated securities is prohibited. The purchase of Crypto Asset

Securities is prohibited. The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited. Purchasing or selling securities on margin is prohibited. The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited. Community Power is prohibited from investing in any company or organization whose business do not align with Community Power's mission, vision, value, and goals.

INVESTMENT PORTFOLIO MANAGEMENT:

The term to maturity of any Funds invested shall not exceed five (5) years pursuant to Section 53601. The Treasurer will allocate Funds among authorized investments consistent with the objectives and standards of care outlined in this Policy.

COLLATERALIZATION:

Certificates of Deposit (CDs). Community Power shall require any commercial bank or savings and loan association to deposit eligible securities with an agency of a depository approved by the State Banking Department to secure any uninsured portion of a Non-Negotiable Certificate of Deposit. The value of eligible securities as defined pursuant to California Government Code, Section 53651, pledged against a Certificate of Deposit shall be equal to 150% of the face value of the CD if the securities are classified as mortgages and 110% of the face value of the CD for all other classes of security.

Bank Deposits. A bank or financial institution may pledge securities or other deposits for the purpose of securing repayment of deposited funds. Community Power shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code, Section 53651.

RISK MANAGEMENT AND DIVERSIFICATION:

Community Power's investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks associated with concentrating investments in specific security types, maturity segment, or in individual financial institutions. No more than 5% of the investment portfolio shall be in securities of any one issuer except for U.S. Treasuries, U.S. Government Agency issues, Supranationals and investment pools such as LAIF and money market funds.

A. **Credit Risk:** Credit risk, defined as the risk of loss due to failure of the insurer of a security, shall be mitigated by investing in those securities with an "A" or above rating and approved in this Policy and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm Community Power's cash flow.

B. **Market Risk:** Market risk or interest rate risk, defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by implementing a short term and long-term investment strategies. It is explicitly recognized herein, however, that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of overall investment return.

   The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by Community Power based on Community Power's investment objectives, constraints and risk tolerances.

C. **Credit Rating:** This Policy sets forth minimum credit ratings for each type of security. These credit ratings apply to the initial purchase of a security and do not automatically force the sale of a security if the credit ratings of the security fall below the policy limits.

   Minimum credit ratings:

   1. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "- ") by at least one NRSRO.

   2. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.

The monitoring of credit ratings consists of the following procedures:

1. When a credit rating downgrade occurs which results in a rating below the minimum credit requirement, Community Power's Finance Department or external investment adviser will analyze and evaluate the credit rating to determine whether to hold or sell the investment.

2. In the event a security in the Fund receives a credit rating downgrade which results in a rating below the minimum credit rating requirement, Community Power's Treasurer will report the rating change to the Finance and Risk Management Committee in the monthly public report. In the same manner, the Finance and Risk Management Committee will be informed on the decision to hold or sell a downgraded security.

3. The Investment Officials or authorized employees involved in the investment process and external investment advisers shall meet at least quarterly to review and update the approved list of securities and establish credit criteria for each category of security.

To ensure that the Fund maintains the highest overall credit rating with the contracted NRSRO, the asset allocation and portfolio holdings will be provided to the contracted NRSRO on a monthly basis.

BROKERS:

The Treasurer shall endeavor to complete investment transactions with institutions eligible to transact investment business with Community Power, in accordance with Section 53601.5, including:

A. Institutions licensed by the state as a broker-dealer.
B. Institutions that are members of a federally regulated securities exchange.
C. Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
D. Nationally or state-chartered banks.
E. The Federal Reserve Bank.
F. Direct issuers of securities eligible for purchase.

Broker/dealers shall be approved by the Chief Executive Officer upon recommendation by the Treasurer. Selection of broker/dealers shall be based upon the following criteria: the reputation and financial strength of the company or financial institution, the reputation and expertise of the individuals employed, and pursuant to the requirements of Section 53601.5. The Treasurer shall require any selected broker, brokerage firm, dealer, or securities firm to affirm that it has not, within any 48-consecutive month period, made a political contribution to any member of the Board, or any candidate who may join the Board in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, the Political Reform Act, including section 84308, or any applicable Community Power Policy, as amended from time to time. The selected broker or dealers shall be provided with and acknowledge receipt of this Policy.

LOSSES:

Losses are acceptable on a sale before maturity and may be taken if required to meet the liquidity needs of Community Power or if the reinvestment proceeds will earn an income flow with a present value higher than the present value of the income flow that would have been generated by the original investment, considering any investment loss or foregoing interest on the original investment.

DELIVERY AND SAFEKEEPING:

The delivery and safekeeping of all securities shall be made through a third-party custodian when practical and cost effective as determined by the Treasurer, or a duly appointed Deputy Treasurer, and in accordance with Section 53608.

The Treasurer shall review all transaction confirmations for conformity with the original transaction and monitor for excessive trading.

ETHICS AND CONFLICT OF INTEREST:

The Investment Officials or authorized employees involved in the investment process, shall act as custodians of the public trust and will refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. Investment Officials and any external investment advisers acknowledge that all direct Community Power investments are subject to public review and evaluation.

Community Power Investment Officials involved in the investment process shall refrain from personal business activity that could create a conflict of interest or the appearance of a conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Community Power Investment Officials shall disclose to General Counsel or designee (i) any material interests in financial institutions with which they conduct business, and (ii) disclose any personal investments with a direct, indirect or beneficial interest totaling $2,000 or more. Investment Officials shall refrain from undertaking any personal investment transactions with the same individual from the external investment adviser with whom business is conducted on behalf of Community Power.

Investment Officials, pursuant with all applicable laws, shall not accept honoraria, gifts, and gratuities from advisers, brokers, dealers, bankers, or other entity with whom Community Power conducts business.

Any external investment adviser contracted by Community Power will comply with Municipal Securities Rulemaking Board Rule G-37 and shall follow the Investment Adviser Fiduciary Standard established by the U.S. Securities and Exchange Commission.

INTERNAL CONTROLS:

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met.

Accordingly, the Treasurer shall establish and maintain internal controls that shall address the following points:

A. **Control of Collusion:** Collusion is a situation where two or more employees are working in conjunction to defraud their employer. To achieve a segregation of duties, individuals who authorize investment transactions shall not also record or reconcile said transactions.

B. Clear Delegation of Authority to Subordinate Staff Members: Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

C. Delivery-Versus-Payment (DVP): All investment transactions shall be conducted on a delivery-versus-payment basis.

D. Safekeeping and Custody: Securities purchased from any bank or dealer, including appropriate collateral (as defined by California Government Code), that are not insured by the FDIC, shall be placed with an independent third party for custodial safekeeping. To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all cash and securities in Community Power's portfolio shall be held in safekeeping in Community Power's name by a third-party custodian, acting as agent for Community Power under the terms of a custody agreement executed by the bank and Community Power. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by Community Power from the custodian listing all securities held in safekeeping with current market data and other information. The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (1) local government investment pools; (2) time certificates of deposit, (3) Local Agency Investment Fund, and (4) mutual funds and money market mutual funds, since these securities are not deliverable.

E. Avoidance of Physical Delivered Bearer Securities: Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Bearer securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with such securities.

F. Written Confirmation of Telephone Wire Transfers: Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written or electronic communications and approved by the appropriate person. Community Power will consider entering into a Wire Transfer Agreement with the Lead Bank or Third-Party**.**

G. Audits: Community Power's Funds shall be subject to a process of independent review by its external auditors. Community Power's external auditors shall review the investment portfolio in connection with Community Power's annual audit for compliance with the Policy pursuant to Section 27134. The results of the audit shall be reported to the Treasurer.

REPORTS:

A. Monthly: The Treasurer will perform a monthly review of the investment function. Following the commencement of investment transactions, the Treasurer shall submit a monthly report of all investment transactions to the Finance and Risk Management Committee. Investment transactions are defined as the purchase, sale or exchange of securities.

B. Annually: The Treasurer will submit an annual report to the Finance and Risk Management Committee within 60 days of the end of a fiscal year providing the following:

- A list of individual securities by investment type, issuer, credit risk rating, CUSIP number, settlement date of purchase, date of maturity, par value and dollar amount invested on all securities, and the market value and source of the market value information;
- A statement that the portfolio is in compliance with this Policy and in accordance with Section 53646 or the manner in which the portfolio is not in compliance; and
- A statement of Community Power's ability to meet anticipated cash requirements for the upcoming 12 months.
- The Treasurer shall monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s), which will be included in the Treasurer's annual report. The Treasurer shall select an appropriate, readily available index to use as a market benchmark. Benchmarks may change over time based on changes in market conditions or cash flow requirements.

C. Annual Review: This Policy will be reviewed annually by the Treasurer. The Board is authorized to approve changes to this Policy following the review of proposed changes by the Finance Risk Management Committee.

Prior Versions:

Date	Action	Resolution No.	Policy No.
5/25/2023	Adoption	N/A	2023-07
6/27/2024	Amendment	2024-04	2023-08

Glossary of Investment Terms

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

BANKERS' ACCEPTANCES. A short-term, negotiable, unconditional, and time draft drawn on and accepted by a bank. It is typically used in trade to finance the purchase and sale of goods.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline, the issuer will likely call its current securities and reissue them at a lower rate of interest.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

CRYPTO ASSET. Digital assets that use public ledgers over the internet to prove ownership. They use cryptography, peer-to-peer networks and a distributed ledger technology (DLT) – such as blockchain – to create, verify and secure transactions.

CUSIP. Committee on Uniform Securities Identification Procedures. A CUSIP number identifies most financial instruments, including: stocks of all registered U.S. and Canadian companies, commercial paper, and U.S. government and municipal bonds.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

DELIVERY vs PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See modified duration).

FEDERAL FUNDS RATE. The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

ISSUER. The entity identified as the counterparty or obligator related to a security trade.

INVERSE FLOATER. A bond or other type of debt whose coupon rate has an inverse relationship to a benchmark rate.

INVESTMENT OFFICIALS. This includes any applicable Community Power staff participating in the investment process; Community Power Treasurer; Community Power Deputy Treasurer(s); and Community Power Board of Directors.

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUID. Term for securities that can be converted to cash quickly.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MATURITY. The final date upon which the principal of a security becomes due and payable.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MORTGAGE BACK SECURITY. Debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property.

MORTGAGE-DERIVED INTEREST-ONLY STRIPS. A financial product created by separating the interest and principal payments of a mortgage-backed security.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO). A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CD. A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

PREMIUM. The difference between the par value of a bond and the cost of the bond, when the cost is above par.

RANGE NOTES. A structured investment where the coupon is linked to the performance of a reference index

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

VOLATILITY. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.