

**AGREEMENT NO. A2017-
FOR PROFESSIONAL SERVICES
BETWEEN THE CITY OF CHINO HILLS AND
CHANDLER ASSET MANAGEMENT, INC.**

INVESTMENT MANAGEMENT & ADVISORY SERVICES

THIS AGREEMENT, made and entered into this 28th day of November 2017, between the CITY OF CHINO HILLS, a municipal corporation, hereinafter referred to as "City" and CHANDLER ASSET MANAGEMENT, INC. hereinafter referred to as "Consultant". In consideration of the mutual covenants and conditions set forth herein, the parties agree as follows:

1. SCOPE OF SERVICES AND ADDITIONAL TERMS. Consultant agrees to perform the services and comply with additional terms set forth in Exhibit A "SCOPE OF SERVICES AND ADDITIONAL TERMS" attached hereto and made a part hereof. Consultant shall submit its work to the City for its review after completing each phase of the project as described in Exhibit A, or when otherwise requested by the City. Consultant shall, at its own cost, make any revisions of its own work as required by the City and re-do, at its own cost, any work which the City finds unsatisfactory due to Consultant's or subcontractor's errors or omissions. Consultant represents and warrants that it has the qualifications, experience and facilities to properly perform said services in a thorough, competent and professional manner and shall, at all times during the term of this Agreement, have in full force and effect, all licenses required of it by law. Consultants shall begin its services under this Agreement on December 1, 2017.

2. STATUS OF CONSULTANT. Consultant is and shall at all times remain as to the City a wholly independent contractor. The personnel performing the services under this Agreement on behalf of Consultant shall at all times be under Consultant's exclusive direction and control. Neither City nor any of its officers, employees or agents shall have control over the conduct of Consultant or any of Consultant's officers, employees or agents, except as set forth in this Agreement. Except as required to carry out the Scope of Services and Additional Terms (Exhibit A), Consultant shall not at any time or in any manner represent that it or any of its officers, employees or agents are in any manner officers, employees or agents of the City. Except as required to carry out the Scope of Services and Additional Terms (Exhibit A), Consultant shall not incur or have the power to incur any debt, obligation or liability whatever against City, or bind City in any manner. Consultant shall not disseminate any information or reports gathered or created pursuant to this Agreement without the prior written approval of City except information or reports required by government agencies to enable Consultant to perform its duties under this Agreement.

3. CONSULTANT'S KNOWLEDGE OF APPLICABLE LAWS. Consultant shall keep itself informed of applicable local, state and federal laws and regulations which may affect those employed by it or in any way affect the performance of its services pursuant to this Agreement. Consultant shall observe and comply with all such laws and regulations affecting its employees. City and its officers and employees, shall not be liable at law or in equity as a result of any failure of Consultant to comply with this section.

4. PERSONNEL. Consultant shall make every reasonable effort to maintain the stability and continuity of Consultant's staff assigned to perform the services hereunder and shall obtain the approval of the City Manager of all proposed staff members performing services under this Agreement prior to any such performance.

5. COMPENSATION AND METHOD OF PAYMENT. Compensation to the Consultant shall be as set forth in Exhibit B attached hereto and made a part hereof. Total compensation shall not exceed \$1,000,000. If the City disputes any of consultant's fees it shall give written notice to Consultant within 30 days of receipt of an invoice of any disputed fees set forth on the invoice.

6. ADDITIONAL SERVICES OF CONSULTANT. Consultant shall not be compensated for any services rendered in connection with its performance of this Agreement which are in addition to those set forth herein or listed in Exhibit A, unless such additional services are authorized in advance and in writing by the City Manager. Consultant shall be compensated for any additional services in the amounts and in the manner as agreed to by City Manager and Consultant at the time City's written authorization is given to Consultant for the performance of said services.

7. ASSIGNMENT. All services required hereunder shall be performed by Consultant, its employees or personnel under direct contract with Consultant. Consultant shall not assign to any subcontractor the performance of this Agreement, nor any part thereof, nor any monies due hereunder, without the prior written consent of City Manager.

8. FACILITIES AND RECORDS. Consultant shall maintain complete and accurate records with respect to sales, costs, expenses, receipts and other such information required by City that relate to the performance of services under this Agreement. Consultant shall maintain adequate records of services provided in sufficient detail to permit an evaluation of services. All such records shall be maintained in accordance with generally accepted accounting principles and shall be clearly identified and readily accessible. Consultant shall provide free access to the representatives of City or its designees at reasonable times to such books and records, shall give City the right to examine and audit said books and records, shall permit City to make transcripts therefrom as necessary, and shall allow inspection of all work, data, documents, proceedings and activities related to this Agreement. Such records, together with supporting documents, shall be maintained for a period of three (3) years after receipt of final payment.

9. TERMINATION OF AGREEMENT. This Agreement shall continue for a period of 3 years, ending on December 31, 2020, with (2) one-year renewal options to be prepared in writing by the City Manager. This Agreement may be terminated with or without cause by either party upon 30 days written notice. In the event of such termination, Consultant shall be compensated for non-disputed fees under the terms of this Agreement up to the date of termination.

10. COOPERATION BY CITY. All public information, data, reports, records, and maps as are existing and available to City as public records, and which are necessary for carrying out the work as outlined in the Scope of Services

and Additional Terms, shall be furnished to Consultant in every reasonable way to facilitate, without undue delay, the work to be performed under this Agreement.

11. OWNERSHIP OF DOCUMENTS. Upon satisfactory completion of, or in the event of termination, suspension or abandonment of, this Agreement, all original maps, models, designs, drawings, photographs, studies, surveys, reports, data, notes, computer files, files and other documents prepared in the course of providing the services to be performed pursuant to this Agreement shall, become the sole property of City. With respect to computer files, Consultant shall make available to the City, upon reasonable written request by the City, the necessary computer software and hardware for purposes of accessing, compiling, transferring and printing computer files.

12. RELEASE OF INFORMATION/CONFLICTS OF INTEREST.

(a) All information gained by Consultant in performance of this Agreement shall be considered confidential and shall not be released by Consultant without City's prior written authorization excepting that information which is a public record and subject to disclosure pursuant to the California Public Records Act, Government Code § 6250, et seq. Consultant, its officers, employees, agents or subcontractors, shall not without written authorization from the City Manager or unless requested by the City Attorney, voluntarily provide declarations, letters of support, testimony at depositions, response to interrogatories or other information concerning the work performed under this Agreement or relating to any project or property located within the City. Response

to a subpoena or court order shall not be considered "voluntary" provided Consultant gives City notice of such court order or subpoena.

If Consultant or any of its officers, employees, consultants or subcontractors does voluntarily provide information in violation of this Agreement, City has the right to reimbursement and indemnity from Consultant for any damages caused by Consultant's conduct, including the City's attorney's fees.

Consultant shall promptly notify City should Consultant, its officers, employees, agents or subcontractors be served with any summons, complaint, subpoena, notice of deposition, request for documents, interrogatories, request for admissions or other discovery request, court order or subpoena from any party regarding this Agreement and the work performed thereunder or with respect to any project or property located within the City. City retains the right, but has no obligation, to represent Consultant and/or be present at any deposition, hearing or similar proceeding. Consultant agrees to cooperate fully with City and to provide City with the opportunity to review any response to discovery requests provided by Consultant. However, City's right to review any such response does not imply or mean the right by City to control, direct, or rewrite said response.

(b) Consultant covenants that neither they nor any officer or principal of their firm have any interest in, or shall they acquire any interest, directly or indirectly which will conflict in any manner or degree with the performance of their services hereunder. Consultant further covenants that in the performance of this Agreement, no person having such interest shall be employed by them as an

officer, employee, agent, or subcontractor without the express written consent of the City Manager.

13. DEFAULT. In the event that Consultant is in default of any of the provisions of this Agreement, City shall have no obligation or duty to continue compensating Consultant for any work performed after the date of default and can terminate this Agreement immediately by written notice to the Consultant.

14. INDEMNIFICATION.

(a) Consultant represents it is skilled in the professional calling necessary to perform the services and duties agreed to hereunder by Consultant, and City relies upon the skills and knowledge of Consultant. Consultant shall perform such services and duties consistent with the standards generally recognized as being employed by professionals performing similar service in the State of California.

(b) Consultant is an independent contractor and shall have no authority to bind City nor to create or incur any obligation on behalf of or liability against City, whether by contract or otherwise, unless such authority is expressly conferred under this agreement or is otherwise expressly conferred in writing by City. City, its elected and appointed officials, officers, agents, employees and volunteers (individually and collectively, "Indemnitees") shall have no liability to Consultant or to any other person for, and Consultant shall indemnify, defend, protect and hold harmless the Indemnitees from and against, any and all liabilities, claims, actions, causes of action, proceedings, suits, damages, judgments, liens, levies, costs and expenses of whatever nature, including reasonable attorneys'

fees and disbursements (collectively "Claims"), which the Indemnitees may suffer or incur or to which the Indemnitees may become subject by reason of or arising out of any injury to or death of any person(s), damage to property, loss of use of property, economic loss or otherwise occurring as a result of or allegedly caused by the negligent or wrongful acts or omissions of Consultant, its agents, officers, directors or employees, in performing any of the services under this agreement.

If any action or proceeding is brought against the Indemnitees by reason of any of the matters against which Consultant has agreed to indemnify the Indemnitees as above provided, Consultant, upon notice from the CITY, shall defend the Indemnitees at Consultant's expense by counsel acceptable to the City. The Indemnitees need not have first paid any of the matters as to which the Indemnitees are entitled in order to be so indemnified. The insurance required to be maintained by Consultant under paragraph 15 shall ensure Consultant's obligations under this paragraph 14(b), but the limits of such insurance shall not limit the liability of Consultant hereunder. The provisions of this paragraph 14(b) shall survive the expiration or earlier termination of this agreement.

The Consultant's indemnification does not extend to Claims occurring as a result of the City's sole negligent or willful acts or omissions.

15. INSURANCE.

A. Insurance Requirements. Consultant shall provide and maintain insurance acceptable to the City Attorney in full force and effect throughout the term of this Agreement, against claims for injuries to persons or damages to property which may arise from or in connection with the performance

of the work hereunder by Consultant, its agents, representatives or employees. Insurance is to be placed with insurers with a current A.M. Best's rating of no less than A:VII. Consultant shall provide the following scope and limits of insurance:

(1) Minimum Scope of Insurance. Coverage shall be at least as broad as:

(a) Insurance Services Office form Commercial General Liability coverage (Occurrence Form CG 0001).

(b) Insurance Services Office form number CA 0001 (Ed. 1/87) covering Automobile Liability, including code 1 "any auto" and endorsement CA 0025, or equivalent forms subject to the written approval of the City.

(c) Workers' Compensation insurance as required by the Labor Code of State of California and Employer's Liability insurance and covering all persons providing services on behalf of the Consultant and all risks to such persons under this Agreement.

(d) Errors and omissions liability insurance appropriate to the Consultant's profession.

(2) Minimum Limits of Insurance. Consultant shall maintain limits of insurance no less than:

(a) General Liability: \$1,000,000 per occurrence for bodily injury, personal injury and property damage. If Commercial General Liability Insurance or other form with a general aggregate limit is used, either the general

aggregate limit shall apply separately to the activities related to this Agreement or the general aggregate limit shall be twice the required occurrence limit.

(b) Automobile Liability: \$1,000,000 per accident for bodily injury and property damage.

(c) Workers' Compensation and Employer's Liability: Workers' Compensation as required by the Labor Code of the State of California and Employers Liability limits of \$1,000,000 per accident.

(d) Errors and Omissions Liability: \$1,000,000 per claim.

(e) Consultant/Contractor shall procure and maintain Cyber Liability insurance with limits of \$1,000,000 per occurrence/loss which shall include the following coverage:

a. Liability arising from the theft, dissemination and/or use of confidential or personally identifiable information; including credit monitoring and regulatory fines arising from such theft, dissemination or use of the confidential information.

b. Network security liability arising from the unauthorized use of, access to, or tampering with computer systems.

c. Liability arising from the failure of technology products (software) required under the contract for Consultant to properly perform the services intended.

d. Electronic Media Liability arising from personal injury, plagiarism or misappropriation of ideas, domain name infringement or

improper deep-linking or framing, and infringement or violation of intellectual property rights.

e. Liability arising from the failure to render professional services.

If coverage is maintained on a claims-made basis, Consultant/Contractor shall maintain such coverage for an additional period of three (3) years following termination of the contract.

B Other Provisions. Insurance policies required by this Agreement shall contain the following provisions:

(1) All Policies. Each insurance policy required by this paragraph 15 shall be endorsed and state the coverage shall not be suspended, voided, canceled by the insurer or either party to this Agreement, reduced in coverage or in limits except after 30 days' prior written notice by Certified mail, return receipt requested, has been given to the City.

(2) General Liability and Automobile Liability Coverages.

(a) City, its officers, officials, and employees and volunteers are to be covered as additional insureds as respects: liability arising out of activities Consultant performs, products and completed operations of Consultant; premises owned, occupied or used by Consultant, or automobiles owned, leased or hired or borrowed by Consultant. The coverage shall contain no special limitations on the scope of protection afforded to City, its officers, officials, or employees.

(b) Consultant's insurance coverage shall be primary insurance as respect to City, its officers, officials, employees and volunteers. Any insurance or self insurance maintained by City, its officers, officials, employees or volunteers shall apply in excess of, and not contribute with, Consultant's insurance.

(c) Consultant's insurance shall apply separately to each insured against whom claim is made or suit is brought, except with respect to the limits of the insurer's liability.

(d) Any failure to comply with the reporting or other provisions of the policies including breaches of warranties shall not affect coverage provided to the City, its officers, officials, employees or volunteers.

(3) Workers' Compensation and Employer's Liability Coverage. Unless the City Manager otherwise agrees in writing, the insurer shall agree to waive all rights of subrogation against City, its officers, officials, employees and agents for losses arising from work performed by Consultant for City.

C. Other Requirements. Consultant agrees to deposit with City, at or before the effective date of this contract, certificates of insurance necessary to satisfy City that the insurance provisions of this contract have been complied with. The City Attorney may require that Consultant furnish City with copies of original endorsements effecting coverage required by this Section. The certificates and endorsements are to be signed by a person authorized by that

insurer to bind coverage on its behalf. City reserves the right to inspect complete, certified copies of all required insurance policies, at any time.

(1) Consultant shall furnish certificates and endorsements from each subcontractor identical to those Consultant provides.

(2) Any deductibles or self-insured retentions must be declared to and approved by City. At the option of the City, either the insurer shall reduce or eliminate such deductibles or self-insured retentions as respects the City, its officers, officials, employees and volunteers; or the Consultant shall procure a bond guaranteeing payment of losses and related investigations, claim administration, defense expenses and claims.

(3) The procuring of such required policy or policies of insurance shall not be construed to limit Consultant's liability hereunder nor to fulfill the indemnification provisions and requirements of this Agreement.

16. NONDISCRIMINATION/NONPREFERENTIAL TREATMENT STATEMENT. In performing this Agreement, the Parties shall not discriminate or grant preferential treatment on the basis of race, sex, color, age, religion, sexual orientation, disability, ethnicity, or national origin, and shall comply, to the fullest extent allowed by law, with all applicable local, state and federal laws relating to nondiscrimination.

17. UNAUTHORIZED ALIENS. Consultant hereby promises and agrees to comply with all of the provisions of the Federal Immigration and Nationality Act (8 U.S.C.A. & 1101, et seq.), as amended; and in connection therewith, shall not employ unauthorized aliens as defined therein. Should Consultant so employ

such unauthorized aliens for the performance of work and/or services covered by this contract, and should the Federal Government impose sanctions against the City for such use of unauthorized aliens, Consultant hereby agrees to, and shall, reimburse City for the cost of all such sanctions imposed, together with any and all costs, including attorneys' fees, incurred by the City in connection therewith.

18. ENTIRE AGREEMENT. This Agreement is the complete, final, entire and exclusive expression of the Agreement between the parties hereto and supersedes any and all other agreements, either oral or in writing, between the parties with respect to the subject matter herein. Each party to this Agreement acknowledges that no representations by any party which are not embodied herein and that no other agreement, statement, or promise not contained in this Agreement shall be valid and binding.

19. GOVERNING LAW. The City and Consultant understand and agree that the laws of the State of California shall govern the rights, obligations, duties and liabilities of the parties to this Agreement and also govern the interpretation of this Agreement. Any litigation concerning this Agreement shall take place in the San Bernardino County Superior Court.

20. ASSIGNMENT OR SUBSTITUTION. City has an interest in the qualifications of and capability of the persons and entities who will fulfill the duties and obligations imposed upon Consultant by this Agreement. In recognition of that interest, neither any complete nor partial assignment of this Agreement may be made by Consultant nor changed, substituted for, deleted, or added to without the prior written consent of City. Any attempted assignment or substitution shall be

ineffective, null, and void, and constitute a material breach of this Agreement entitling City to any and all remedies at law or in equity, including summary termination of this Agreement. Subcontracts, if any, shall contain a provision making them subject to all provisions stipulated in this Agreement.

21. MODIFICATION OF AGREEMENT. The terms of this Agreement can only be modified in writing approved by the City Council and the Consultant. The parties agree that this requirement for written modifications cannot be waived and any attempted waiver shall be void.

22. AUTHORITY TO EXECUTE. The person or persons executing this Agreement on behalf of Consultant warrants and represents that he/she/they has/have the authority to execute this Agreement on behalf of his/her/their corporation and warrants and represents that he/she/they has/have the authority to bind Consultant to the performance of its obligations hereunder.

23. NOTICES. Notices shall be given pursuant to this Agreement by personal service on the party to be notified, or by written notice by email, or upon such party deposited in the custody of the United States Postal Service addressed as follows:

City.

Attention: City Clerk
City of Chino Hills
14000 City Center Drive
Chino Hills, California 91709
Email: cityclerk@chinohills.org

Consultant.

Attention: Nicole Dragoo, IACCP
Chandler Asset Management, Inc.
6225 Lusk Boulevard
San Diego, CA 92121
Email: ndragoo@chandlerasset.com
Tel: 800-317-4747
Fax: 858-546-3741

The notices shall be deemed to have been given as of the date of personal service, or three (3) days after the date of deposit of the same in the custody of the United States Postal Service.

24. CONSISTENCY. In interpreting this Agreement and resolving any ambiguities, the main body of this Agreement takes precedence over the attached Exhibits; this Agreement supersedes any conflicting provisions. Any inconsistency between the Exhibits will be resolved in the order in which the Exhibits appear below:

- A. Exhibit A: Scope of Services and Additional Terms
- B. Exhibit B: Compensation
- C. Exhibit C: City's Investment Policy

25. SEVERABILITY. The invalidity in whole or in part of any provision of this Agreement shall not void or affect the validity of the other provisions of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed the day and year last written below.

CITY OF CHINO HILLS

Chandler Asset Management, Inc.

Ray Marquez
Mayor



(Signature)

ATTEST:

Martin D. Cassell / CEO

(Printed name/Title)

Cheryl Balz
City Clerk

11-20-2017

(Date)

(Date)

(Signature)

APPROVED AS TO FORM:

(Printed Name/Title)

Mark D. Hensley
City Attorney

(Date)

EXHIBIT A

SCOPE OF SERVICES AND ADDITIONAL TERMS AND CONDITIONS

1. **Scope of Services**. Consultant shall provide discretionary investment management and advisory services for the City on all funds, as authorized by the City Council and directed by Staff to be managed by Consultant. The Consultant shall provide the additional related services, which shall include but not be limited to the following:
 - a) Assist the City with maturity analysis
 - b) Provide credit analysis of investment instruments in the portfolio
 - c) Provide monthly/quarterly/annual reporting on all government entity funds
 - d) Attend meetings with City staff and City Treasurer
 - e) Evaluate market risk and develop strategies that minimize the impact on the portfolio
 - f) Review the City's investment policy and make recommendations for change as appropriate
 - g) Provide assurance of portfolio compliance with applicable policies and laws and the City's investment policy
 - h) Establish an appropriate performance benchmark
 - i) Indicate full understanding of the investment policy
 - j) Ensure portfolio structure matches City objectives

This Agreement incorporates the following additional terms:

2. **City Representative**. In its capacity as investment manager, Consultant shall receive all instructions, directions and other communications on City's behalf respecting City's account from the City Treasurer/Finance Director (Representative). Consultant is hereby authorized to rely and act upon all such instructions, directions and communications from such Representative or any agent of such Representative.
3. **Investment Policy**. In investing and reinvesting City's assets, Consultant shall comply with City's Investment Policy, which is attached to this Agreement as Exhibit C.
4. **Electronic Delivery**. From time to time, Consultant may be required to deliver certain documents to City such as account information, notices and required disclosures. City hereby consents to Consultant's use of electronic means, such as email, to make such delivery. This delivery may include notification of the availability of such document(s) on a website, and City agrees that such notification will constitute "delivery". City further agrees to provide Consultant with City's email address(s) and to keep this information current at all times by promptly notifying Consultant of any change in email address(s).
5. City email address(s): cbuhaqiar@chinohills.org and ecarlock@chinohills.org

6. **Proxy Voting.** Consultant will vote proxies on behalf of City unless otherwise instructed. Consultant has adopted and implemented written policies and procedures and will provide City with a description of the proxy voting procedures upon request. Consultant will provide information regarding how City's proxies were voted upon request. To request proxy policies or other information, please contact us by mail at the address provided, by calling 800-317-4747 or by emailing your request to info@chandlerasset.com.
7. **Custody of Securities and Funds.** Consultant shall not have custody or possession of the funds or securities that City has placed under its management. City shall appoint a custodian to take and have possession of its assets. City recognizes the importance of comparing statements received from the appointed custodian to statements received from Consultant. City recognizes that the fees expressed above do not include fees City will incur for custodial services.
8. **Valuation.** Consultant will value securities held in portfolios managed by Consultant no less than monthly. Securities or investments in the portfolio will be valued in a manner determined in good faith by Consultant to reflect fair market value.
9. **Investment Advice.** City recognizes that the opinions, recommendations and actions of Consultant will be based on information deemed by it to be reliable, but not guaranteed to or by it. Provided that Consultant acts in good faith, City agrees that Consultant will not in any way be liable for any error in judgment or for any act or omission, except as may otherwise be provided for under the Federal Securities laws or other applicable laws.
10. **Payment of Commissions.** Consultant may place buy and sell orders with or through such brokers or dealers as it may select. It is the policy and practice of Consultant to strive for the best price and execution and for commission and discounts which are competitive in relation to the value of the transaction and which comply with Section 28(e) of the Securities and Exchange Act. Nevertheless, it is understood that Consultant may pay a commission on transactions in excess of the amount another broker or dealer may charge, and that Consultant makes no warranty or representation regarding commissions paid on transactions hereunder.
11. **Other Clients.** It is further understood that Consultant may be acting in a similar capacity for other institutional and individual clients, and that investments and reinvestments for City's portfolio may differ from those made or recommended with respect to other accounts and clients even though the investment objectives may be the same or similar. Accordingly, it is agreed that Consultant will have no obligation to purchase or sell for City's account any securities which it may purchase or sell for other clients.
12. **Receipt of Brochure and Privacy Policy.** City hereby acknowledges receipt of the disclosure statement or "brochure" and "brochure supplement" also known as Part 2A and Part 2B of Form ADV, required to be delivered pursuant to Rule 204 3 of the Investment Advisers Act of 1940 (Brochure). City further acknowledges receipt of Consultant's Privacy Policy, as required by Regulation S-P.

EXHIBIT B
COMPENSATION

City shall compensate Consultant monthly an amount calculated on the average market value of City's portfolio, including accrued interest, in accordance with the following schedules:

<u>Assets Under Management</u>	<u>Annual Investment Management Fee</u>
First \$25 million	0.10 of 1% (10 basis points)
Next \$25 million	0.08 of 1% (8 basis points)
Next \$25 million	0.07 of 1% (7 basis points)
Assets in excess of \$100 million	0.06 of 1% (6 basis points)

The fees expressed above do not include any custody fees that may be charged by City's bank or other third party custodian. The City is not required to pay any start-up or closing fees; there are no penalty fees. There are no additional costs associated with the sale and purchase of securities, other than those that may be imposed by the custodian.

Fees shall be prorated to the effective date of termination of the agreement on the basis of actual days elapsed, and any unearned portion of prepaid fees shall be refunded.

The fee schedule is all-inclusive for the services that the Consultant will provide the City, including personal visits and education offerings for staff. Fees are based on the amount of assets under management and are not based on transaction volume. Management fees will accrue as long as there are assets in the portfolio, even if there is no activity during the period. Since the firm calculates fees based on the average balance of assets under our direct management (market value including accrued interest), fees will fluctuate based on portfolio value.

Fees shall be deducted monthly in arrears from City's custody account. There is no annual minimum required.

EXHIBIT C

CITY OF CHINO HILLS Statement of Investment Policy Fiscal Year 2017/18

I. POLICY

It is the policy of the City of Chino Hills ("City") to meet the short and long-term cash flow demands of the City in a manner, which will provide for the safety of principal and sufficient liquidity, while providing an investment return. The purpose of this Statement of Investment Policy (hereinafter, this "Investment Policy") is to outline a process of the investment of City funds in a prudent manner in order to meet City objectives.

II. SCOPE

This investment policy applies to all investment activities and financial assets of the City, held by the City and its agents and trustees, except for funds held by investment providers of deposits made pursuant to provisions of the City's Deferred Compensation Plan (hereinafter, the "Funds"). Bond proceeds shall be invested in accordance with the requirements and restrictions outlined in the bond documents. Bond proceeds are not considered part of the Funds nor subject to this Investment Policy.

The following funds are covered by this Investment Policy and are accounted for in the City's Comprehensive Annual Financial Report:

- a) General Fund
- b) Special Revenue Fund
- c) Debt Service Funds
- d) Capital Project Funds
- e) Enterprise Funds
- f) Internal Services Funds
- g) Fiduciary Funds (Trust and Agency Funds)
- h) Any new funds created by the City Council

III. DELEGATION OF AUTHORITY

Pursuant to City of Chino Hills Municipal Code Sections 3.12.010 et seq, the City Treasurer is authorized to invest the City's Funds in accordance with California Government Code Sections 53600 et seq, 16429.1 and 53684.^{1/} Under section 53607,

^{1/}All subsequent references to code sections refer to the California Government Code unless otherwise indicated.

the City Council may annually, but not later than June 30th of a fiscal year, delegate to the City Treasurer (the "Treasurer") the responsibility for investing the City's funds for the upcoming fiscal year.

Where the City Council delegates the responsibility for investing the City's funds to the Treasurer, the Treasurer is absent or otherwise unavailable to make investments, the Treasurer delegates those responsibilities to the Assistant Finance Director. Investments made by the Assistant Finance Director will be restricted to the State Pool ("LAIF"), the County of Los Angeles Investment Pool, or to securities maturing within six months. Prior to investing in securities, the Assistant Finance Director will consider the cash flow requirements of the City and may invest in securities maturing over six months if directed by the Treasurer in writing or verbally, if confirmed in writing within 30 days. The Treasurer may delegate to subordinates the execution of daily investment transactions. These investment transactions shall be approved by the Treasurer.

If the City Council has not delegated the responsibility for investing the City's funds to the Treasurer, the City Council may authorize the delegation of investment authority to an outside investment adviser that is registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940.

IV. PRUDENCE

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 in a diversified portfolio due to economic, bond market, or individual security credit analysis. These occasional losses must be evaluated and considered within the context of the overall investment return.

The "Prudent Investor" standard shall be applied in the context of managing the Funds. The Treasurer and other investment employees, acting within the intent and scope of the investment policy and other written procedures 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 manner and appropriate action is taken to control adverse developments.

V. OBJECTIVES

The objective of the investment portfolio is to meet the short and long-term cash flow demands of the City. To achieve this objective, the portfolio will be structured to provide Safety of Principal and Liquidity, while then providing a Return on Investments. The following criteria, in priority order, shall govern all investment decisions.

A. Safety of Principal

Investments of the City shall be undertaken in a manner that seeks to ensure that capital losses are minimized, whether from institution default, broker-dealer default, or erosion of the market value of securities. 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 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 pre-qualifying 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 the Funds 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. Securities shall not be sold prior to maturity with the following exceptions: 1) a declining credit security would be sold early to minimize loss of principal, 2) a security swap would improve the quality, yield, or target duration in the portfolio, or 3) liquidity needs of the portfolio require that the security be sold. Purchases of investments will be restricted to securities with a final stated maturity not to exceed five years.

B. Liquidity

The Funds shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the Funds will maintain a liquidity buffer and invest primarily in securities with active secondary or resale markets (dynamic liquidity).

C. Return on Investments

The Funds shall be designed to attain a return on investments through budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the

safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

VI. ETHICS AND CONFLICTS OF INTEREST

The Treasurer 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 Treasurer and investment employees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any 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 their entity. The Treasurer 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 Treasurer or investment employees to make impartial decisions, the City Council will be notified in writing within 10 days of the event.

VII. SAFEKEEPING OF SECURITIES

To protect against fraud, embezzlement, or losses caused by collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by the City's custodial bank, a third party bank trust department, acting as agent for the City under the terms of a custody agreement. Such custodial bank must be a federal or state association (as defined by Section 5102 of the Financial Code), a trust company or a state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this state, or with any Federal Reserve bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System. Collateral for repurchase agreements will be held by a third party custodian under the terms of a Public Securities Association ("PSA") master repurchase agreement. All securities will be received and delivered using standard delivery versus payment ("DVP") procedures which ensures that securities are deposited with the third party custodian prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

Investments in the State Pool or money market mutual funds are undeliverable and are not subject to delivery or third party safekeeping. The Treasurer shall not be responsible for securities delivered to and receipted for by a financial institution until they are withdrawn from the financial institution by the Treasurer.

On a daily basis, investment trades shall be verified against the bank transactions and broker confirmation tickets to ensure accuracy. On a monthly basis, the custodial asset statement shall be reconciled with the month end portfolio holdings. On an annual basis, the external auditor confirms investment holdings.

VIII. REPORTING

In accordance with amended Section 53646 of the Government Code, effective January 1, 1996, the Treasurer will annually render to the City Council not later than June 30th of each fiscal year, a statement of investment policy. The policy shall be reviewed on an annual basis by the Treasurer. Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such moneys shall be reinvested only as provided by this policy.

Pursuant to Section 53607 and Section 53646 of the Government Code, the Treasurer shall render a report to the City Council and City Manager, containing detailed information on all securities, investments, and moneys of the City. The report will be submitted on a monthly basis and be provided to the Council within 30 days following the end of the month.

The report will contain the following information on the funds that are subject to this investment policy: 1) the type of investment, name of the insurer, date of maturity, par and cost in each investment, 2) any investments, including loans and security lending programs, that are under the management of contracted parties, 3) the market value and source of the valuation, 4) a description of the compliance with the statement of investment policy, and 5) a statement denoting the City's ability to meet its pool's expenditure requirements for the next six months.

To the extent the City has funds invested with county investment pools, the Treasurer shall request copies of all the investment reports generated by the counties pursuant to Government Code Section 27133 and the annual audit required by Government Code Section 27134. The investment report shall reflect a summary of these reports and audits.

IX. INTERNAL CONTROLS

The Treasurer shall develop a system of internal investment controls and a segregation of responsibilities of investment functions in order to assure an adequate system of internal control over the investment function. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected.

X. EXTERNAL AUDIT

On at least an annual basis the City shall have an external auditor review the City's investments and provide an opinion to the City respecting the City's compliance with this Investment Policy.

XI. QUALIFIED DEALERS AND INSTITUTIONS

The City shall transact business only with banks, savings and loans, and registered investment securities dealers. The purchase of any investment, other than those purchased directly from the issuer, shall be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporation Code, who is a member of the National Association of Securities Dealers, or a member of a Federally regulated securities exchange, a National or State-Chartered Bank, a Federal or State Association (as defined by Section 5102 of the Financial Code), or a brokerage firm designed as a Primary Government Dealer by the Federal Reserve Bank. The Treasurer's staff shall review all institutions which wish to do business with the City, in order to determine if they are adequately capitalized, make markets in securities appropriate to the City's needs, and agree to abide by the conditions set forth in this Investment Policy. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must provide a current audited financial statement and complete the appropriate City questionnaire (See Attachment "A" and Attachment "B").

XII. COLLATERAL REQUIREMENTS

California Government Code, Sections 53652 through 53667 requires depositories to post certain types and levels of collateral for public funds above the Federal Deposit Insurance Corporation ("FDIC") insurance amounts. The collateral requirements apply to bank deposits, both active (checking and savings accounts) and inactive (non-negotiable time certificates of deposit). The bank or savings and loan must secure the active and inactive deposits with eligible securities having a market value of 110% of the total amount of the deposits. State law also allows as an eligible security, first trust deeds having a value of 150% of the total amount of the deposits. A third class of collateral is letter of credit drawn on the Federal Home Loan Bank (FHLB).

From time to time certain institutions ask to reduce the existing certificate of deposit to below the federally insured limit. This is requested in order that the accrued interest on the deposit will also be insured. It is to the City's advantage to reduce the principal deposit to the lower level for full insurance coverage of principal and accrued interest if the financial institution requests the reduction and if there is no penalty assessed for the reduction. If funds are to be collateralized, the collateral we accept is 110% of the deposit in government securities.

Collateral is also required for repurchase agreements. The collateral level shall be valued daily and must be maintained at a level of 102% for the life of the repurchase agreement.

XIII. AUTHORIZED INVESTMENTS

The investments set forth in this section are authorized investments pursuant to Section 53601 of the Government Code and are authorized investments for the City subject, however, to the prohibitions set forth in Section XIV of this Investment Policy.

- (a) 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. The maximum maturity for these investments is five (5) years.
- (b) 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. The maximum maturity for these investments is five (5) years.
- (c) Registered state warrants or treasury notes or bonds of this state, 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. The maximum maturity for these investments is five (5) years.
- (d) 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. The maximum maturity for these investments is five (5) years.
- (e) 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. The maximum maturity for these investments is five (5) years.
- (f) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, the Tennessee Valley Authority, or in obligations, participations, or other instruments of, or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in guaranteed portions of Small Business Administration notes; or in obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprises (see Section XIV for prohibited investments in Small Business Administration Notes). The maximum maturity for these investments is five (5) years.
- (g) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances. 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. However, no more than 30 percent of the agency's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section (see Section XIV for prohibited investments in bankers' acceptances).

- (h) 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), such as Moody's Investors Service, Inc. (Moody's), Standard and Poor's Corporation (S&P) or Fitch Financial Services, Inc. (Fitch). Eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and are in a rating category of "A" or higher rating for the issuer's debt, other than commercial paper, if any, as provided for by an NRSRO. Purchases of eligible commercial paper may not exceed 270 days maturity. Investments in commercial paper are subject to the following concentration limits: (1) No more than 25 percent of the City's surplus money may be invested in eligible commercial paper, (2) No more than 10 percent of the City's surplus money may be invested in any one issuer's commercial paper. (See Section XIV for prohibited investments in commercial paper).
- (i) Non-negotiable time deposits collateralized in accordance with the California Government Code, in those banks and savings and loan associations which meet the requirements for investment in negotiable certificates of deposit. This category also includes non-negotiable certificates placed through a nationally or state chartered commercial bank, savings bank, and savings and loan associations, provided that the full principal and interest accrual is insured by the Federal Deposit Insurance Corporation (FDIC), pursuant to California Government Code Section 53601.8. These fully FDIC insured certificates of deposit shall have a maximum maturity of 5 years and will be limited to 30 percent of the City's portfolio. (See Section XIV for prohibited investments in certificates of deposit).
- (j) Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal association (as defined by Section 5102 of the Financial Code) or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposits do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The maximum maturity for these investments is five (5) years.
- (k) (1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of securities authorized by this section, so long as the agreements are subject to this subdivision, including, the delivery

requirements specified in this section (see Section XIV for prohibited investments in reverse repurchase agreements).

(2) Investments in repurchase agreements may be made, on an investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlie a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

(3) Reverse repurchase agreements or security lending agreements may be utilized only when all of the following conditions are met:

- A. The security to be sold using a reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the City for a minimum of 30 days prior to sale.
- B. The total of all reverse repurchase agreements and securities lending agreements on investments owned by the City does not exceed 20 percent of the base value of the portfolio.
- C. The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.
- D. Funds obtained or funds with the pool of an equivalent amount to that obtained from selling a security to a counter party using a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(4) Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the City sells securities prior to purchase with a simultaneous agreement to repurchase the security may be made only upon prior approval of the City Council and shall be made only with primary dealers of the Federal Reserve Bank of New York or with a nationally or

State-chartered bank that has or has had a significant banking relationship with the City. (See Section XIV for prohibited investments in reverse repurchase agreements).

(5) (A) "Repurchase agreement" means a purchase of securities by the City pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the City by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.

(B) "Securities," for purposes of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.

(C) "Reverse repurchase agreement" means a sale of securities by the City pursuant to an agreement by which the City will repurchase the securities on or before a specified date and includes other comparable agreements.

(D) "Securities lending agreement" means an agreement under which the City agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the City. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the City in return for the collateral.

(E) For purposes of this section, the base value of the City's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements or security lending agreements or other similar borrowing methods.

(F) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.

- (I) 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. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and may not exceed 30 percent of the City's moneys that may be invested pursuant to this section (see Section XIV for prohibited investments in medium term corporate notes). The maximum maturity for these investments is five (5) years.

- (m) (1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (o) inclusive, and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). To be eligible for investment pursuant to this subdivision, these companies shall either:
 - (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.
 - (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q) inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000).
- (2) Shares of benefit interest issued by diversified management companies that are money market fund registered with Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. sec. 80a-1 et seq). To be eligible for investment pursuant to this subdivision, these companies shall either:
 - (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSRO's.
 - (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).
- (3) The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include commission that the companies may charge and shall not exceed 20 percent of the City's moneys that may be invested pursuant to this section. However, no more than 10 percent of the City's funds may be invested in shares of beneficial interest of any one mutual fund.
- (n) Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of the City, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the City providing for the issuance.

- (o) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing City deposits having a market value at least equal to that required by Section 53652 for the purpose of securing City deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted. The maximum maturity for these investments is five (5) years.
- (p) A mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years maturity. Securities eligible for investment under this subdivision shall be issued by an issuer in a rating category of "A" or higher rating for the issuer's debt as provided by an NRSRO and rated in a rating category of "AA" or its equivalent or better by an NRSRO. Purchase of securities authorized by this subdivision may not exceed 20 percent of the City's moneys that may be invested pursuant to this section (see Section XIV for prohibited investments in mortgage backed securities).
- (q) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
 - (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
 - (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
 - (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).
- (r) State and County investment pools are defined as the State of California Local Agency Investment Fund and the Los Angeles County Pooled Funds of Investments in this Investment Policy.
- (s) Supranational Securities that are 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 "AA" or better by a NRSRO and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. (See Section XIV for prohibited investments in supranational securities).

XIV. PROHIBITED INVESTMENTS AND TRANSACTIONS

- (a) The City shall not invest any funds in inverse floaters, range notes, or mortgage derived, interest-only strips.

- (b) The City shall not invest any funds in any security that could result in zero interest accrual if held to maturity. However, the City may hold prohibited instruments until their maturity dates. The limitation in this subdivision shall not apply to City investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, and following) that are authorized for investment pursuant to subdivision (m) of Section XIII, above.
- (c) No credit union may act as a selected depository institution under Section 53601.8 or Section 53635.8 for certificates of deposit.
- (d) The City shall not purchase or sell securities on margin.
- (e) The following types of investments shall not be directly used by the City:
 - (i) Federal Agency Issues: Guaranteed Small Business Administration (SBA) Notes.
 - (ii) Bankers Acceptances
 - (iii) Commercial Paper
 - (iv) Reverse Repurchase Agreements
 - (v) Mortgage-Backed Securities

However, it is acknowledged that investment pools in which the City invests may invest funds in the securities set forth in this subdivision (e).

- (f) The City shall not invest in Supranational Securities that are unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB).

XV. DEFERRED COMPENSATION PLAN

The City offers a deferred compensation plan (Plan) to its employees and has contracted with certain providers to offer investment options in which the employees may invest their contributions to the Plan. The Plan is established in accordance with Section 457 of the Internal Revenue Code (I.R.C). Currently, the assets of the deferred compensation plan are held in the deferred compensation plan trust for the exclusive benefit of the plan's participants and their beneficiaries, and the assets shall not be diverted to any other purpose. The City of Chino Hills serves as the trustee. The trustee's beneficial ownership of plan assets held in the deferred compensation plan trust shall be held for the further exclusive benefit of the plan participants and their beneficiaries. However, in accordance with the Plan, the employees have the exclusive responsibility to choose in which investments their contributions will be deposited. The City does not have any responsibility in selecting any investment options offered by the providers. The restrictions on investments contained within this Statement of Investment Policy do not apply to the deposits and investments made in accordance with the Plan. The Plan deposits and investments are governed by I.R.C. Section 457 and the provisions of the Plan, the contracts with the Plan providers, and the prospectus of the issuers of the various investment products offered by the Plan providers. Additionally, the plan deposits are governed by Section 17 of Article XVI of the California Constitution and Section 53609 of the Government Code.

XVI. MONEY PURCHASE PLAN

The City offers a Money Purchase Plan (MPP) to its employees and has contracted with certain providers to offer investment options in which the employees may invest their contributions to the MPP. The MPP is established in accordance with Section 401(a) of the Internal Revenue Code. Currently, Section 401(a) provides that the assets contributed to the MPP by the City's employees are immediately 100% vested to the contributor. Pursuant to the MPP, the employees have the exclusive responsibility to choose in which investments their contributions will be deposited. The City does not have any responsibility in selecting any investment options offered by the providers. The restrictions on investments contained within this Statement of Investment Policy do not apply to the deposits and investments made in accordance with the MPP. The MPP deposits and investments are governed by I.R.C. Section 401(a) and the provisions of the MPP, the contracts with the MPP providers, and the prospectus of the issuers of the various investment products offered by the MPP providers.

XVII. POLICY REVIEW

This Investment Policy shall be reviewed at least annually by the Treasurer and City Council to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return, and its relevance to current law, financial and economic trends, and to meet the needs of the City.

CITY OF CHINO HILLS CITY TREASURER INVESTMENT PORTFOLIO GUIDELINES

These guidelines are established to direct and control investment activities in such a manner to assure that the goals established in the Investment Policy are attained.

1. **Cash Forecast.** The cash flow of the City shall be updated daily with an analysis of cash receipts and expenditures and a review of the scheduled investment maturities to ensure that adequate cash will be available to meet the disbursement requirements.
2. **Pooled Cash.** Whenever practical, the City's cash should be consolidated into one bank account and invested on a pooled concept basis. Interest earnings may be allocated according to fund cash and investment balances.
3. **Diversification.** Diversification will be used as a tool to control risk.
4. **Competitive Bids.** Purchase and sale of securities shall be made on the basis of competitive bids and offers with a minimum of three quotes being obtained, when practical.
5. **Authorized Institutions.** Investment transactions will only be executed with previously approved brokers-dealers, banks, and savings and loans. A list of these institutions shall be authorized and maintained by the Treasurer.
6. **Certificate of Deposit Evaluation.**
 - (a) Time Certificates of Deposit (TCD) shall be evaluated in terms of financial strength. For deposits in excess of the FDIC insured maximum of \$250,000 approved collateral shall be required, as specified by California Government Code Section 53652, 53651, and 53661.
 - (b) Negotiable Certificate of Deposit (NCD) shall be evaluated in terms of the credit worthiness of the issuer, as these deposits are uninsured and uncollateralized promissory notes.
7. **Investment Transaction.** Every investment transaction must be reviewed and authorized by the Treasurer. In the absence of the Treasurer, the authority to review and authorize investment transactions is delegated to the Assistant Finance Director, within the scope outlined in the Investment Policy.

The daily investment transactions may be delegated to the Assistant Finance Director, Accounting Supervisor, or one of the Department's Accountants. All investment transactions will be reviewed and approved by the Finance Department's Accountant who is not responsible for the daily investment activity. Following the Accountant's review and approval, the Finance Director will review and approve the investment transactions.

8. Safekeeping. Securities purchased from broker-dealers shall be held at the City's custodial bank. Repurchase agreement collateral will be held at a tri-party custodial bank and valued daily.
9. Strategy. Strategy refers to the plan of action for managing financial resources in the most advantageous manner. The Treasurer uses the following elements in developing strategy.
 - (a) Economic Forecast. Economic forecast information developed by economists and financial experts and obtained through bankers, brokers, financial databases, periodicals and universities are used to assist the Treasurer with the formulation of an investment strategy for the City.
 - (b) Investment Implementation. Execute only investment transactions which conform with anticipated cash flow requirements, economic condition and interest rate trends and are consistent with the established Investment Policy Statement.
 - (c) Rapport. A close working relationship with City Departments such as Finance, Utilities, Capital Projects Team, and all other Departments having a significant impact on cash flow, is maintained in order to maximize the efficiency of the City's cash management system and establish cash flow requirements.

**CITY OF CHINO HILLS
OFFICE OF THE CITY TREASURER
BANK/SAVINGS AND LOAN QUESTIONNAIRE AND CERTIFICATION**

1 Name of Firm: _____

2 Address: _____

3 Telephone No. () _____ (Local) () _____ (Nat. Headquarters)

4 Primary Representative: Manager:
Name: _____ Name: _____

Title: _____ Title: _____

Tel. No. () _____ Tel. No. () _____

5 What are the Total Assets of the Bank/Savings and Loan?

6 What is the current Net Worth Ratio of your institution?

7 What was the Net Worth Ratio for the Previous Year?

8 What is your required Capital Ratios?
A. Tangible Capital Ratio _____
B. Core Capital Ratio _____
C. Risk-Based Capital Ratio _____

9 What are your Ratings (i.e., S&P, Moody's, Thompson, Fitch)?

10 What is the date of your Fiscal Year-End? _____

A. Has there been a year during the past three years in which the Bank/Savings and Loan did not make a profit?

11 Have you read the California Government Code Section 53630 through 53684 pertaining to the State's requirements governing the deposit of monies by Local Agencies which includes Cities? YES NO

12 Amounts above the FDIC insurance coverage must be collateralized as specified in the Government Code. Where is the collateral for Deposits held?

Has there ever been a failure to fully collateralize? If Yes, please attach explanation.

13 What is the education level of the Primary Contact(s)?

14 How many years of related experience does the Primary Contact(s) have?

15 What transaction documents and reports would we receive?

16 What information would you provide to our City Treasurer?

17 Describe the precautions taken by your Bank/Savings and Loan to protect the interest of the public when dealing with government agencies as depositors or investors.

18 Please provide your Contract of Deposit of Moneys pre-signed and sealed by your institution, as well as, any signature cards that you may require.

19 Please provide your Wiring Instructions: _____

20 Please provide your Bank/Savings and Loan most recent certified financial statement. In addition, an audited financial statement must be provided within 120 days of your fiscal year-end.

- CERTIFICATION -

I hereby certify that I have personally read City of Chino Hills Investment Policy and the California Government Codes pertaining to the investments and deposits of the City of Chino Hills, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and the City of Chino Hills. **I understand however, that our firm is not obligated to monitor the percentage limits on the investments as described in the policy.** All sales personnel will be routinely informed of City of Chino Hills' investment objectives, horizon, outlook, strategies and risk constraints whenever we are so advised. We pledge to exercise due diligence in informing City of Chino Hills Investment Officers of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

NOTE: Completion of Questionnaire is only part of City of Chino Hills Certification process and DOES NOT guarantee that the applicant will be approved to do business with the City of Chino Hills.

SIGNED: _____ DATE: _____

COUNTERSIGNED: _____ DATE: _____

12 Please provide your Wiring and Delivery Instructions:

13 Which of the following instruments are offered regularly by your local desk?

- T-Bills Treasury Notes/Bonds Discount Notes
 NCD'S Agencies (specify) _____
 BAs (Domestic) BAs (Foreign) Mid-Term Notes
 Commercial Paper Repurchase Agreements
 Reverse Agreements

14 Which of the above does your Firm specialize in Marketing?

15 Please identify your most directly comparable City Local Agency clients in our geographical area.

Entity Contact Person Telephone No. Client Since

16 What reports, transactions, confirmations and paper trail would we receive?

17 Please include samples of research reports or market information that your Firm regularly provides to local agency clients.

18 What precautions are taken by your Firm to protect the interest of the public when dealing with government agencies as investors.

19 Have you or your Firm been censored or punished by a Regulatory State or Federal Agency for improper or fraudulent activities, related to the sale of securities?

YES NO

20 If yes, please explain. _____

21 Attach certified documentation of your capital adequacy and financial solvency. In addition, an audited financial statement must be provided within 120 days of your fiscal year-end.

- CERTIFICATION -

I hereby certify that I have personally read City of Chino Hills Investment Policy and the California Government Codes pertaining to the investments and deposits of the City of Chino Hills, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and the City of Chino Hills. **I understand however, that our firm is not obligated to monitor the percentage limits on the investments as described in the policy.** All sales personnel will be routinely informed of City of Chino Hills' investment objectives, horizon, outlook, strategies and risk constraints whenever we are so advised. We pledge to exercise due diligence in informing City of Chino Hills Investment Officers of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

NOTE: Completion of Questionnaire is only part of City of Chino Hills Certification process and DOES NOT guarantee that the applicant will be approved to do business with the City of Chino Hills.

SIGNED: _____ DATE: _____

COUNTERSIGNED: _____ DATE: _____
(Person in charge of government securities operations.)

Glossary of Investment Terms

AGENCIES. Shorthand market terminology for any obligation issued by a *government-sponsored entity (GSE)*, or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called “FreddieMac” issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as “FannieMae,” issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as “GinnieMae,” issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASKED. The price at which a seller offers to sell a security.

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

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER’S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which “accepts” the obligation to pay the investor.

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.

BID. The price at which a buyer offers to buy a security.

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 since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

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.

COST YIELD. The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

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.

CURRENT YIELD. The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

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

DEBENTURE. A bond secured only by the general credit of the issuer.

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.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

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.

FEDERAL OPEN MARKET COMMITTEE. A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

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.

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.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

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.

MARKING TO MARKET. The process of posting current market values for securities in a portfolio.

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 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.

PREPAYMENT SPEED. A measure of how quickly principal is repaid to investors in mortgage securities.

PREPAYMENT WINDOW. The time period over which principal repayments will be received on mortgage securities at a specified prepayment speed.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

REALIZED YIELD. The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

REGIONAL DEALER. A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

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.

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

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.