RESOLUTION NO. 15-031, Series of 2015

TITLE: A RESOLUTION TO ADOPT TOWN COUNCIL POLICY STATEMENT 1-2015 CONCERNING INVESTMENTS

WHEREAS, the Town Council approved Resolution No. 96-016, Series of 1996, on June 24, 1996, to adopt the Town of Parker Investment Policy;

WHEREAS, Resolution No. 96-016, Series of 1996, provides that the Town Council may amend the Town of Parker Investment Policy by resolution;

WHEREAS, the Town Council desires to adopt the attached Town of Parker Investment Policy, which will be administered by the Town Administrator and, where applicable, the Town Council; and

WHEREAS, the Town Council desires to replace the Town of Parker Investment Policy that was adopted on June 24, 1996, with Town Council Policy Statement 1-2015, which is attached hereto as **Exhibit A** and incorporated by this reference ("Town Council Policy Statement 1-2015").

NOW, THEREFORE, BE IT RESOLVED BY THE TOWN COUNCIL OF THE TOWN OF PARKER, COLORADO, AS FOLLOWS:

Section 1. The Town Council of the Town of Parker hereby adopts Town Council Policy Statement 1-2015.

Section 2. Town Council Policy Statement 1-2015 shall go into effect on July 7, 2015, and Resolution No. 96-016 shall be of no further force or effect.

RESOLVED AND PASSED this 6th day of July, 2015.

TOWN OF PARKER, COLORADO

Mike Waid, Mayor

ATTEST:

Carol Baumgartner, Town Clerk

Town of Parker
INVESTMENT POLICY

The Town of Parker is a Colorado home rule municipality operating under its Town Charter. The Town functions under the direction of a Town Administrator who is appointed by Town Council. Existing Colorado State Statutes and the Town's Charter and Ordinances provide Parker with legal authority to promulgate and implement local standards for cash and investment management operations.

PURPOSE

The purpose of this Investment Policy (the "Policy") is to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the Town of Parker, Colorado. This Policy also defines the role and duties of the Town of Parker's Investment Advisory Committee.

This Policy was endorsed and adopted by the Town Council, pursuant to Resolution No. 15-031, Series of 2015, and is effective as of the 7th day of July, 2015, and replaces all previous investment guidelines formulated by members of Town staff or Resolutions concerning the investment of Town funds adopted by Town Council. Any investment currently held at the time the Policy is adopted which does not meet the new Policy guidelines, but was compliant with the prior policy, can be held until maturity, and shall be exempt from this Policy. At the time of the investment's maturity or liquidation such funds shall be reinvested only as provided in the most current policy.

SCOPE

The provisions of this Policy shall apply to all investable funds of the Town of Parker, Colorado (hereinafter referred to as the Town). Pension plan funds and deferred compensation plan funds are expressly excluded from this Policy.

All cash, except for certain restricted and special accounts, shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective average balances relative to the total pooled balance. Interest earnings shall be distributed to the individual funds on a monthly basis.

OBJECTIVES

Town funds will be invested in accordance with this Policy to achieve the following objectives, listed in order of priority:

- Preservation of capital and protection of investment principal.
- Maintenance of sufficient liquidity to meet the Town's financial obligations.

- Diversification to avoid incurring unreasonable market risks resulting from investment overconcentration in a specific maturity sector, issuer, or class of securities. Treasury securities are excluded from this stipulation.
- Attainment of a market rate of return throughout budgetary and economic cycles, equal to or exceeding the selected market benchmark and taking into account the Town's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that govern the investments. Return on investment is of secondary importance compared to the safety and liquidity objectives.
- Conformance with all applicable Town, State and Federal laws, rules and regulations.

DELEGATION OF AUTHORITY

Authority to manage the Town's investment program is derived from Colorado Revised Statutes (C.R.S. § 24-75-601.1) and the Town Home Rule Charter (Article IX). The Town Council is responsible for the adoption of this Policy. Management responsibility for the administration of this Policy is hereby delegated to the Town Administrator.

The Town Finance Director shall develop written administrative procedures and internal controls, consistent with this Policy, for the operation of the Town's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the Town.

The Town Finance Director, with the approval of the Town Administrator, may delegate the authority to conduct investment transactions and manage the operation of the investment portfolio to specifically authorized staff members. No person may engage in an investment transaction except as expressly provided under the terms of this Policy. Persons authorized to transact investment business on behalf of the Town of Parker are listed in Annex I to this Policy.

The Town may engage the support services of advisors, consultants and professionals in regard to its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the Town's financial resources. Investment Advisors shall be registered with the Securities Exchange Commission under the Investment Advisors Act of 1940. Advisors shall be selected using the Town's authorized purchasing procedures for selection of professional services. Advisors shall serve in a non-discretionary capacity, shall be subject to the provisions of this Policy, and shall not, under any circumstances, take custody of any Town funds or securities.

PRUDENCE

The standard of prudence to be used for managing the Town's assets is the "prudent investor" rule which states, investments shall be made with "judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment considering the probable safety of their capital as well as the probable income to be derived." (C.R.S. § 15-1-304, Standard for Investments).

The Town's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Town shall recognize that no investment is totally riskless and that the investment activities of the Town are a matter of public record. Accordingly, the Town recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the Town.

The Town Finance Director and authorized investment personnel acting in accordance with written procedures and this Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that the deviations from expectations are reported in a timely fashion to the Town Administrator and appropriate action is taken to control adverse developments.

ETHICS AND CONFLICTS OF INTEREST

Elected officials and 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, or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Town Administrator any material financial interests they have in financial institutions that conduct business with the Town and they shall subordinate their personal investment transactions to those of the Town. Elected officials shall comply with the Town's code of ethics. Employees shall comply with the employee code of ethics as contained in the Town Personnel Manual and Town Operations Manual, as amended.

AUTHORIZED SECURITIES AND TRANSACTIONS

Except as specifically defined in this Policy, all investments of the Town shall be made in accordance with applicable laws contained in the Colorado Revised Statutes, as amended: C.R.S. § 11-10.5-101, *et seq*., Public Deposit Protection Act; C.R.S. § 11-47-10, *et seq*., Savings and Loan Association Public Deposit Protection Act; C.R.S. § 24-75-601, *et seq*., Funds-Legal Investments; C.R.S. § 24-75-603, Depositories, and C.R.S. § 24-75-702, Local governments-authority to pool surplus funds. Any revisions or extensions of these sections of the Colorado Revised Statutes will be assumed to be part of this Investment Policy immediately upon the effective date thereof.

The Town has further defined the following types of securities and transactions as eligible for use by the Town:

1. U.S. Treasury Obligations: Treasury Bills, Treasury Notes, Treasury Bonds and Treasury Strips (separate trading of interest or principal) with maturities not exceeding five years from the date of trade settlement.

2. U.S. Agency and Federal Instrumentality Securities: Debentures, discount notes, callable securities, step-up securities and stripped principal or coupons with defined maturities not exceeding five years from the date of trade settlement. Subordinated debt, mortgage-backed securities and other derivatives are **excluded** from the approved securities list.

3. Corporate or Bank Debt Securities:

   a. Bonds, notes, debentures and medium-term notes issued by a corporation or bank which is organized and operated within the United States, with remaining maturities not exceeding five years from the date of trade settlement. Such securities, at the time of purchase, must be rated at least A+ by Standard & Poor's, A1 by Moody's, or A+ by Fitch by at least two services that rate the issue.

b. The Town hereby authorizes investments in securities denominated in U.S. dollars and issued by a corporation or bank that is not organized and operated within the United States. Investment in international corporate securities must have a final maturity not exceeding three years from the date of trade settlement and must be rated at least AA- by Standard & Poor's, Aa3 by Moody's or AA- by Fitch by at least two services that rate the issue. Such investments shall not exceed an allocation of 5% per country at the time of purchase.

c. Commercial paper with maturities not exceeding 270 days from the date of trade settlement that is rated at least A-1 by Standard and Poor's, P-1 by Moody's, or F-1 by Fitch at the time of purchase by at least two services that rate the commercial paper. If the commercial paper issuer has senior debt outstanding, the senior debt must be rated by each service that publishes a rating on the issuer of at least A+ by Standard and Poor's, A1 by Moody's, or A+ by Fitch. Issuers must have a $250 million program in place to be eligible for investment.

d. Eligible Banker's Acceptances with original maturities not exceeding 180 days from the date of trade settlement, issued by a state or national bank with combined capital and surplus of at least $250 million. Banker's Acceptances shall be rated P-1 by Moody's, A-1 by Standard & Poor's and F-1 by Fitch at the time of purchase by at least two services that rate them. If the issuing bank has senior debt outstanding, it shall be rated, at the time of purchase A+ by Standard and Poor's, A1 by Moody's, or A+ by Fitch.

At no time shall the market value of investments in corporate and bank securities total more than fifty percent of the total market value of the Town's portfolio with no greater than five percent exposure to any single issuer. No subordinated security may be purchased.

5. Money Market Mutual Funds registered under the Investment Company Act of 1940 that: 1) are "no-load" (*i.e.*: no commission or fee shall be charged on purchases or sales of shares) and charge no 12b1 fees; 2) have a constant daily net asset value per share of $1.00; 3) limit assets of the fund to securities authorized by state statute; 4) have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and 5) have a rating of AAAm by Standard and Poor's or AAA by Moody's, or AAA/V-1+ by Fitch Investors Service.

6. Local Government Investment Pools authorized under C.R.S. § 24-75-701, *et seq*., that: 1) are "no-load" (*i.e.*, no commission or fees shall be charged on purchases or sales of shares) and charge no 12b1 fees; 2) have a constant daily net asset value per share of $1.00; 3) limit assets of the fund to securities authorized by state statute; 4) have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and 5) have a rating of AAAm by Standard and Poor's or AAA by Moody's or AAA/V-1+ by Fitch Investors Service.

7. Time Certificates of Deposit with a maturity not exceeding five years in any bank that is a member of the Federal Deposit Insurance Corporation (FDIC). At the time of purchase, certificates of deposit that exceed FDIC insurance limits shall be collateralized as

required by the Public Deposit Protection Act or the Savings and Loan Association Public Deposit Protection Act. Issuers of Time Certificates of Deposit shall have a Thomson Reuters Bank Insight rating of at least 20 for the most recent reported quarter at the time of purchase if the deposit exceeds FDIC Insurance.

8. Repurchase Agreements:

   a. Repurchase Agreements with maturities of 180 days or less collateralized by U.S. Treasury securities listed in item 1 above and Federal Instrumentality Securities listed in item 2 above with the maturity of the collateral not exceeding 10 years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the Town approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of 102 percent of the dollar value of the transaction. Collateral shall be held in the Town's custodian bank as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.

   b. Repurchase Agreements shall be entered into only with dealers who have executed a Town approved Master Repurchase Agreement with the Town and who are recognized as primary dealers with the Federal Reserve Bank of New York or have a primary dealer within their holding company structure. The Town Finance Director shall maintain a copy of the Town's approved Master Repurchase Agreement along with a list of the broker/dealers who have an executed Master Repurchase Agreement with the Town. Broker/dealers having an executed Master Repurchased Agreement on file with the Town of Parker are listed in Annex II to this Investment Policy.

   The Town may utilize Tri-party Repurchase Agreements provided that the Town is satisfied that it has a perfected interest in the securities used as collateral and that the Town has a properly executed Tri-party Agreement with both the counterparty and custodian bank.

9. Obligations of the Town of Parker: General obligation bonds, revenue bonds, or other debt securities issued by or guaranteed wholly, partially or morally by the Town of Parker, Colorado.

10. General Obligations and Revenue Obligations of state or local governments with a maturity not exceeding five years from the date of trade settlement. General Obligations and Revenue Obligations of this state or any political subdivision of this state must be rated at the time of purchase at least A by Standard and Poor's, A2 by Moody's or A by Fitch by at least two services that rate the issue. General Obligations and Revenue Obligations of any other state or political subdivision of any other state must be rated at the time of purchase at least AA by Standard and Poor's, Aa2 by Moody's or AA by Fitch by at least two services that rate the issue. Up to 30% of the portfolio may be invested in aggregate in municipal general obligations and revenue obligations. No more than 5% of the total portfolio may be invested in the securities of any single issuer.

11. Unsubordinated obligations issued by the International Bank for Reconstruction and Development (The World Bank). The securities must be rated "AA" or higher by a nationally recognized statistical rating organization. No more than 5% of the total

portfolio may be invested in these securities, and the maximum maturity may not exceed 5 years.

Securities that have been downgraded below minimum ratings described herein may be sold or held at the Town's discretion. The portfolio will be brought back into compliance with this Policy's guidelines as soon as is practical.

It is the intent of the Town that the foregoing list of authorized securities be strictly interpreted. Any deviation from this list must be preapproved by the Town Administrator in writing and must be presented for approval by the Town Council at the next regular Town Council meeting.

The Town recognizes that bond proceeds may, from time to time, be subject to the provisions of the Tax Reform Act of 1986, Federal Arbitrage Regulations, as amended. Due to the legal complexities of arbitrage law and the necessary immunization of yield levels to correspond to anticipated cash flow schedules, the reinvestment of such debt issuance may, upon the advice of Bond Counsel or financial advisors, deviate from the maturity limitation provisions of this Policy with written approval of Town Council.

PORTFOLIO MATURITIES AND LIQUIDITY

To the extent possible, investments shall be matched with anticipated cash flow requirements. Unless matched to a specific cash flow requirement or approved by Town Council, the Town will not invest in securities maturing more than five years from the date of trade settlement. The Town shall maintain at least 10% of its total portfolio in instruments maturing in 90 days or less. The weighted average final maturity of the Town's portfolio shall at no time exceed three years.

INVESTMENT POOLS/MUTUAL FUNDS

The Town shall conduct a thorough investigation of any pool or mutual fund prior to making an investment, and on a continual basis thereafter. There shall be a questionnaire developed which will answer the following general questions:

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
5. A schedule for receiving statements and portfolio listings.
6. Are reserves, retained earnings, etc. utilized by the pool/fund?
7. A fee schedule, and when and how is it assessed.
8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

RISK MANAGEMENT AND DIVERSIFICATION

MITIGATING CREDIT RISK IN THE PORTFOLIO

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The Town will mitigate credit risk by adopting the following strategies:

- The diversification requirements included in the "Authorized Securities and Transaction" section of this policy are designed to mitigate credit risk in the portfolio.

- No more than 5% of the total portfolio may be invested in securities of any single issuer per each category in "Authorized Securities and Transaction" section of this policy, except where the issuer is the US Government, its Agencies and GSEs or where the security is Money Market Mutual Funds or Local Government Investment Pools.

- The Town may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or Town's risk preferences.

- If securities owned by the Town are downgraded by a nationally recognized statistical ratings organization to a level below the quality required by this investment policy, it will be the Town's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

  - If a security is downgraded, the Finance Director will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.

  - If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the Town Council.

MITIGATING MARKET RISK IN THE PORTFOLIO

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The Town recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The Town will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The Town further recognizes that certain types of securities, including variable rate securities, securities with principal pay downs prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The Town, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The Town shall maintain at least 10% of its total portfolio in instruments maturing in 90 days or less to provide sufficient liquidity for expected disbursements.

- The maximum percent of callable securities (does not include "make whole call" securities as defined in the Glossary) in the portfolio will be 20%.

- The maximum stated final maturity of individual securities in the portfolio will be five years, except as otherwise stated in this policy.

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

SELECTION OF BROKER/DEALERS

The Town Finance Director shall maintain a list of broker/dealers approved for investment purposes by the Town's Investment Advisory Committee, and it shall be the policy of the Town to purchase securities only from those authorized firms. To be eligible, a firm must meet at least one of the following criteria:

1. Be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a primary dealer within its holding company structure;
2. Report voluntarily to the Federal Reserve Bank of New York,
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

Broker/dealers will be reviewed by the Town's Investment Advisory Committee on the basis of their expertise in public cash management and their ability to provide services for the Town's account. Approved broker/dealers and the firms they represent shall be licensed to do business in the State of Colorado and as such are subject to the provisions of the Colorado Revised Statutes, including but not limited to C.R.S. § 24-75-604.

The Town may engage the services of investment advisory firms to assist in the management of the portfolio and investment advisors may utilize their own list of approved broker/dealers. Such broker/dealers will comply with the selection criteria above and the list of approved firms shall be provided to the Town on an annual basis or upon request.

In the event that an external investment advisor is not used in the process of recommending a particular transaction in the Town's portfolio, any authorized broker/dealer from whom a competitive bid is obtained for the transaction will attest in writing that he/she has received a copy of this policy and each authorized broker/dealer shall be required to submit and annually update a Town approved Broker/Dealer Information Request form that includes the firm's most recent financial statements. The Town Finance Director shall maintain each approved firm's most recent Broker/Dealer Information Request form.

Firms currently authorized for investment purposes by the Town of Parker are listed in Annex III to this Investment Policy. The Town Finance Director shall furnish updated copies of Annex III to Town Council whenever changes are made.

The Town may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in item 3.b. of the Authorized Securities and Transactions section of this Investment Policy.

COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the Town is offered a security for which there is no other readily available competitive offering, then quotations on comparable or alternative securities will be recorded.

SELECTION OF BANKS

The Town Finance Director shall maintain a list of banks approved by the Investment Advisory Committee to provide depository and other banking services for the Town. Banks in the judgment of the Town Finance Director no longer offering adequate safety to the Town, will be removed from the list.

To be eligible for designation to provide banking services, a financial institution shall qualify as a depository of public funds in the State of Colorado, as defined in C.R.S. § 24-75-603, as evidenced by a certificate issued by the State Banking Board and shall be an FDIC member, with all deposits in excess of FDIC coverage collateralized as required by the Colorado Public Deposit Protection Act or the Colorado Savings and Loan Association Public Deposit Protection Act.

Banks approved to provide depository and other banking services, including the sale of certificates of deposit, are listed in Annex IV to this Investment Policy.

SAFEKEEPING AND CUSTODY

Settlement of all investment transactions will be completed using standard delivery-vs.-payment procedures. The Town Finance Director shall select one or more financial institutions to provide safekeeping and custodial services for the Town. A Town approved Safekeeping Agreement shall be executed with each custodian bank prior to utilizing that bank's safekeeping services.

To be eligible for designation as the Town's safekeeping and custodian bank, a financial institution shall qualify as a depository of public funds in the State of Colorado as defined in C.R.S. § 24-75-603 and be a Federal Reserve member financial institution.

Custodian banks will be selected on the basis of their ability to provide services for the Town's account and the competitive pricing of their safekeeping related services.

It is the intent of the Town that all investment securities be perfected in the name of the Town, and that all deliverable investment securities purchased by the Town will be delivered by book entry and will be held in third-party safekeeping by a Town approved custodian bank or the Depository Trust Corporation (DTC).

All book entry securities owned by the Town shall be evidenced by a safekeeping receipt or customer confirmation issued to the Town by the custodian bank stating that the securities are held in the Federal Reserve system in a Customer Account for the custodian bank which will name the Town as "customer."

The Town may utilize the services of the Depository Trust Corporation (DTC) as a depository for delivery of securities not wired through the Federal Reserve system.

Financial institutions approved to provide safekeeping and custodial services for the Town are listed in Annex IV to this Investment Policy.

PORTFOLIO PERFORMANCE

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the Town's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments.

The Finance Director shall monitor and evaluate the portfolio's performance relative to market benchmark, which will be included in the Finance Director's quarterly report. The Finance Director shall select an appropriate, readily available index to use as a market benchmark.

REPORTING

The Town Finance Director shall prepare semi-annual reports for the review of the Town Council, the Town Administrator and the Investment Advisory Committee. The reports shall include a listing of the investments held by the Town, the maturity, cost, book value and current market value of the portfolio, credit quality of each investment, and the amount of interest earned to date. The Town Finance Director shall also present a review of the portfolio's adherence to appropriate risk levels a statement that the portfolio is in compliance with the investment policy or the manner in which the portfolio is not in compliance, and a comparison between the portfolio's total return and the established investment objectives and goals. Recent market conditions, economic developments, and investment conditions shall also be reviewed.

INVESTMENT ADVISORY COMMITTEE

The Town of Parker maintains an Investment Advisory Committee that consists of the Mayor or a Councilmember appointed by the Mayor and ratified by Town Council, the Town Finance Director, the Town Administrator or designee, and two financial professionals.

Purpose of Committee. The Investment Advisory Committee reviews and monitors the Town's cash management and investment results, develops and recommends investment policies to the Town Council, and assists in the selection of investment facilitators and managers.

Selection of Financial Professionals. The Town Finance Director or designee shall solicit volunteers that are financial professionals to serve on the Investment Advisory Committee through a public notification process. The Town Finance Director shall provide recommendations of appointees to the Town Council for final selection. Professionals sought are to be knowledgeable of the financial arena, with experience serving as representatives of banks or trust companies, representatives of primary government bond dealers, private sector cash managers, or finance directors or investment personnel in local governmental entities. Preference shall be given to financial professionals who live or work within the Town limits of Parker.

Terms. The Mayor, during the Mayor's term in office, or if the Mayor appoints a Councilmember, the term shall be two (2) years beginning in January of each even numbered year. Financial professionals shall be appointed for four-year staggered terms. Reappointment of members shall be considered.

Compensation. Members of the Investment Advisory Committee shall serve without compensation or reimbursement for expenses incurred in attending meetings.

Meetings. The Investment Advisory Committee shall meet at least semi-annually.

POLICY REVISIONS

This Policy shall be reviewed annually by the Town Finance Director and the Investment Advisory Committee. This Policy may be amended by the Town Council as conditions warrant. The data contained in the Annexes to this Policy may be updated by the Town Finance Director as necessary, provided the changes in no way affect the substance or intent of this Investment Policy.

Prepared and submitted by the Investment Advisory Committee of the Town of Parker.

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.

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.