



INVESTMENT POLICY (Adopted February 9, 2026)

INTRODUCTION

The City of Palo Alto invests its pooled idle cash according to State of California law and the charter of the City of Palo Alto. In particular, the City follows “The Prudent Investor Standard” cited in the State Government Code (Section 53600.3). Under this standard, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

INVESTMENT OBJECTIVES

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and return:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
 - a) Credit risk is the risk that an obligation will not be paid and a loss will result. The City will seek to minimize this risk by:
 - i. Limiting investment to the safest types of securities or minimum credit quality rating as listed in the “Authorized Investment” section
 - ii. Diversifying its investments among the types of securities that are authorized under this investment policy
 - b) Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investor’s portfolio. For example, an investor with large holdings in long-term bonds has assumed significant interest rate risk because the value of the bonds will fall if interest rates rise. The City can minimize this risk by:

- i. Structuring the investment portfolio so that securities mature to meet cash flow requirements
2. **Liquidity:** Liquidity is the second most important objective of the investment program. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by maintaining a portion of the portfolio in short-term investments. The investment portfolio will consist of securities with active secondary or resale markets should the need to sell a security prior to maturity arises.
3. **Return:** Return on the City's portfolio is last in priority among investment objectives. The investment portfolio shall be designed to obtain a market rate of return throughout budgetary and economic cycles that reflect the authorized investments, risk constraints, and liquidity needs outlined in the City's investment policy.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RESPONSIBILITIES

In addition to and subordinate to the Safety, Liquidity, and Return investment objectives, investments that support sound environmental, social and governance (ESG) objectives are also considered. While the City's portfolio is not classified as an ESG portfolio, investments in entities that support community well-being through practices that emphasize safe and environmentally sound objectives; fair labor practices; and equality of rights regardless of sex, race, age, disability, or sexual orientation, is encouraged. Direct investments in entities that manufacture tobacco products, firearms, and engage in direct production or drilling of fossil fuels is discouraged.

This section applies to new investments (after November 5, 2018) only and does not require divestment of existing investments. Investments in Certificates of Deposit (CDs) and Negotiable Certificates of Deposit are exempt from the ESG investing objective.

SCOPE

- A. This investment policy shall apply to all financial assets of the City of Palo Alto as accounted for in the Annual Comprehensive Financial Report (ACFR), including but not limited to the following funds:
 1. General Fund
 2. Special Revenue Funds
 3. Debt Service Funds
 4. Capital Project Fund
 5. Enterprise Funds
 6. Internal Service Funds
 7. Trust and Agency Funds
- B. The policy does not cover funds held by in the City's Public Pension Retirement Funds, the

Retiree Medical Funds (Other Post-Employment Benefits Trust or OPEB), the Pension Trust Fund (Section 115 Trust), Deferred Compensation programs, and self-insurance funds held by City's Risk Pool Pool Joint Powers Authority

- C. Investments of bond proceeds shall be governed by the provisions of the related bond indentures.

GENERAL INVESTMENT GUIDELINES

1. The maximum stated final maturity of individual securities in the portfolio should be ten years.
2. No more than 30% of the market value of the total portfolio shall be invested in securities with maturities beyond five years.
3. The City shall maintain a minimum of one month's net cash needs in short term and/or liquid investments. Liquid investments are investment with a maturity of one year or less, cash deposit accounts, pooled investment fund (i.e. LAIF), or a money market mutual fund.
4. Should the ratio of the market value of the portfolio to the book value of the portfolio fall below 95%, the Administrative Services Department will report this fact to the City Council quarterly and evaluate whether there is any risk of holding any of the securities to maturity.
5. Where the Investment Policy specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. A later increase or decrease in a percentage resulting from a change in the portfolio's assets or values shall not constitute a violation of that restriction. As soon as reasonably possible, percentage limitations will be restored as investments mature in each category.

AUTHORIZED INVESTMENTS

The California Government Code (Sections 53600 et seq.) governs investment of City funds. Within the investments permitted by the Code, the City seeks to further restrict eligible investments to the guidelines listed below. In the event there is a difference between the Policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits and minimum credit quality requirements listed in this section apply at the time the security is purchased.

Any investment currently held at the time the policy is adopted, which does not meet the new policy guidelines, can be held until maturity and shall be exempt from the current policy. At the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy. The following investments are authorized:

1. **U.S. Treasuries** (e.g. Treasury notes, bonds and bills) and other government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest.
 - a) There is no limit on purchase of these securities.
 - b) Securities will not exceed 10 years maturity.
2. **Federal Agencies or United States Government-Sponsored Enterprise Obligations** – including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises (GSE).
 - a) There is no limit on purchase of these securities except for:
 - i. No more than 30% of the total portfolio may be invested in any single federal agency/GSE issuer.
 - ii. Callable and Multi-step-up securities provided that:
 - The potential call dates are known at the time of purchase
 - The interest rates at which they “step-up” are known at the time of purchase
 - The entire face value of the security is redeemed at the call date
 - No more than 20% of the market value of the total portfolio may be invested in federal agency callable and step-up securities
 - b) Securities will not exceed 10 years maturity.
3. **Municipal Securities**
 - a) Municipal securities must be rated in a rating category of “A” or its equivalent or better by at least one Nationally Recognized Statistical Rating Organization (“NRSRO”) that is registered with the U.S. Securities and Exchange Commission.
 - b) Municipal securities may not exceed 30% of the market value of the total portfolio.
 - c) No more than 5% of the market value of the total portfolio may be invested in any single issuer.
 - d) Securities will not exceed 10 years maturity.
 - e) Investments include:
 - i. Registered state warrants or treasury notes or bonds of the State of

California and bonds, notes, warrants, or other evidences of indebtedness of any local agency within California, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the state or local agency or by a department, board, agency, or authority of the state or local agency.

- ii. Registered treasury notes or bond of any of the 49 United States in addition to the State of 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 United States, in addition to the State of California.
4. **Certificates of Deposit (CD)** - A debt instrument issued by a bank for a specified period of time at a specified rate of interest. Purchase of CD's are limited to:
- a) May not exceed 20% of the market value of the portfolio.
 - b) No more than 10% of the market value of the portfolio in collateralized CDs in any institution.
 - c) Purchase collateralized deposits only from federally insured large banks that are rated by one NRSRO.
 - d) For non-rated banks, deposit should be limited to amounts federally insured (FDIC). – See Appendix C
 - e) Rollovers are not permitted without specific instruction from authorized City staff.
5. **Banker's Acceptance Notes (BA)** – Bills of exchange or time drafts drawn on and accepted by commercial banks. Purchase of banker's acceptances are limited to:
- a) No more than 40% of the market value of the portfolio.
 - b) Not to exceed 180 days maturity.
 - c) No more than 5% of the market value of the total portfolio with any one institution.
6. **Commercial Paper** - Short-term unsecured obligations issued by banks, corporations, and other borrowers. Purchases of commercial paper are limited to entities that meet all of the following conditions in either paragraph (a) or (b) and other requirements specified below:

- a) Securities issued by corporations:
 - i. A corporation organized and operating in the United States with assets more than \$500 million.
 - ii. The securities are rated “A-1” or its equivalent or better by at least one NRSRO.
 - iii. If the issuer has other debt obligations, they must be rated in a rating category of “A” or its equivalent or better by at least one NRSRO.

- b) Securities issued by other entities:
 - i. The issuer is organized within the United States as a special purpose corporation, trust, or limited liability company.
 - ii. The securities must have program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.
 - iii. The securities are rated “A-1” or its equivalent or better by at least one NRSRO.

Moreover, no more than 10% of the outstanding commercial paper of any single issuer is permitted, and under a provision sunsetting on January 1, 2031 (SB 998), no more than 40% of the total portfolio market value may be invested in Commercial Paper. No more than 5% of the total portfolio market value may be invested in any single issuer. The maximum maturity may not exceed 397 days.

- 7. **Local Agency Investment Fund (LAIF)** – A State of California managed investment pool may be used up to the maximum permitted by California State Law.

- 8. **Short-Term Repurchase Agreements (REPO)** – A contractual agreement between a seller and a buyer, usually of U.S. government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time. Purchases of REPO’s must:
 - a) Not to exceed one (1) year.

 - b) Market value of securities that underlay a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities.

 - c) A Master Repurchase agreement must be signed with the bank or dealer. Terms of the Master Purchase Agreement must be aligned with requirements outlined in California Government Code section 53601(j).

- 9. **Collateralized Bank Deposits** – City’s deposits with financial institutions will be

collateralized with pledged securities per California Government Code, Section 53651. There are no limits on the dollar amount or percentage that the City may invest in collateralized bank deposits.

10. **Money Market Mutual Funds** – Money Market Mutual Funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:
 - a) Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
 - b) Have 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 \$500 million.
 - c) No more than 20% of the total portfolio market value may be invested in the shares of any one Money Market Mutual Fund.

11. **Shares of Beneficial Interest Issued by a Joint Powers Authority (JPA)** – provided that:
 - a) The JPA is organized pursuant to California Government Code Section 6509.7 and invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive.
 - b) Each share shall represent an equal proportional interest in the underlying pool of securities owned by the JPA.
 - c) The JPA has retained an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (q).
 - d) No more than 20% of the total market value of the portfolio may be invested in shares of beneficial interest issued by a joint powers authority.

12. **Negotiable Certificates of Deposit (NCD)** issued by nationally or state-chartered banks, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state licensed branch of a foreign bank. Purchases of negotiable certificates of deposit:
 - a) The amount of the NCD insured up to the FDIC limit does not require any credit ratings.

- b) Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated “A-1” or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of “A” or its equivalent or better by at least one NRSRO.
 - c) No more than 30% of the total portfolio market value may be invested in NCDs.
 - d) No more than 5% of the total portfolio market may be invested in any single issuer.
 - e) The maximum maturity may not exceed five (5) years.
13. **Medium-Term Corporate Notes** – Issued by corporation organized and operating within the United States or by depository institutions licensed by the United States or any state and operating with the United States.
- a) Not to exceed five (5) years maturity.
 - b) The securities shall be rated in a rating category of “A” or its equivalent or better by at least one NRSRO.
 - c) No more than 30% of the market value of the total portfolio may be invested in medium-term corporate notes.
 - d) No more than 5% of the market value of the total portfolio may be invested in securities of any single issuer.
 - e) If securities owned by the City are downgraded by Moody’s, Fitch, or Standard & Poor’s to a level below the rating category of A, it shall be the City’s policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
14. **Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations** – from issuers not defined in subparagraphs 1 and 2 of the Authorized Investments section of this policy, provided that:
- a) The securities are rated in a rating category of “AA” or its equivalent or better by a NRSRO.
 - b) No more than 20% of the total portfolio may be invested in these securities.
 - c) No more than 5% of the total portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer.

- d) The maximum maturity does not exceed five (5) years.
15. **Supranational Organizations Securities** – Supranational organizations refer to Issues that are US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Inter-American Development Bank (IADB).
- a) Securities will not exceed five (5) years maturity.
- b) No more than 30% of the market value of the total portfolio.
- c) No more than 10% of the market value of the total portfolio with any one institution.
- d) Securities must be rated in a rating category of “AA” or its equivalent or better by a NRSRO.

Appendix A provides a more detailed description of each investment vehicle and its security and liquidity features.

PROHIBITED INVESTMENTS:

Includes all investments not specified above, and in particular:

1. Reverse repurchase agreements
2. Derivatives, as defined in Appendix B
3. State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.
4. In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
5. Investment in any security that could result in a zero interest accrual if held to maturity is prohibited. Under a provision sunseting on January 1, 2031, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted.
6. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
7. Purchasing or selling securities on margin is prohibited.
8. The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.

9. The purchase of foreign currency denominated securities is prohibited.
10. The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited

Appendix B provides a more detailed description of reverse repurchase agreements and derivatives, which are prohibited, for City investment.

AUTHORIZED INVESTMENT PERSONNEL

Idle cash management and investment transactions are the responsibility of the Administrative Services Department. The Administrative Services Department is under the control of the Director of Administrative Services (Director), as treasurer, who is subject to the direction and supervision of the City Manager.

The Assistant Directors of Administrative Services (Assistant Director), who reports to the Director, are authorized to make all investment transactions allowed by the Statement of Investment Policy. The Assistant Director may authorize the Manager of Treasury, Debt & Investments (Manager), Senior Management Analyst (Analyst), and/or designated investment firm (Firm) to enter into investments within clearly specified parameters. The City may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

The Investment function is under the supervision of the Assistant Director. The Assistant Director is charged with the responsibility to manage the investment program (portfolio), which includes developing and monitoring the City's cash flow model and developing long-term revenue and financing strategies and forecasts.

The Manager, Analyst, and/or Firm are subject to the direction and supervision of the Assistant Director. The Manager, Analyst, and/or Firm assist the Assistant Director, in the purchase and sale of securities. The Manager, Analyst, and/or Firm also prepare the quarterly report, and record daily all investment transactions as to the type of investment, amount, yield, and maturity. Cash flow projections are prepared as needed.

No other person has authority to make investment transactions without the written authority of the Director or Assistant Director of Administrative Services.

AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

- A. The Director of Administrative Services or designee shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes. Due inquiry shall determine whether such authorized broker/dealers, and the individuals covering the City are reputable and trustworthy, knowledgeable and experienced in public agency investing and able to meet all of their financial obligations. These institutions

may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

- B. In accordance with Section 53601.5, institutions eligible to transact investment business with the City include:
1. Institutions licensed by the state and proof of FINRA certification as a broker-dealer, as defined in Section 25004 of the Corporations Code, with proof of FINRA certification.
 2. Institutions that are members of a federally regulated securities exchange.
 3. Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
 4. Nationally or state-chartered banks.
 5. Savings association or federal association (as defined in Section 5102 of the Financial Code).
 6. The Federal Reserve Bank.
 7. Direct issuers of securities eligible for purchase.
- C. Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the City, except where the City utilizes an external investment adviser in which case the City may rely on the adviser for selection.
- D. All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the Director of Administrative Services or designee with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 et seq. and the City's investment policy. The Director of Administrative Services or designee will conduct an annual review of the financial condition and registrations of such qualified bidders.
- E. To the extent practicable, the Director of Administrative Services or designee shall endeavor to complete investment transactions using a competitive bid process whenever possible. The City's Director of Administrative Services will determine which financial institutions are authorized to provide investment services to the City. It shall be the City's policy to purchase securities only from authorized institutions and firms.
- F. Selection of broker/dealers used by an external investment adviser retained by the City will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality

securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

- G. Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

SAFEKEEPING AND CUSTODY

All securities shall be delivered to the City's safekeeping custodian and held in the name of the City of Palo Alto, with the exception of the following investments:

- a) Certificates of deposit, which may be held by the City itself.
- b) City shares in pooled investment funds, under contract.
- c) Mutual funds
- d) Local Agency Investment Fund (LAIF)

POLICY REVIEW AND REPORTING ON INVESTMENTS

Monthly, the Administrative Services Department will review performance in relation to Council adopted Policy. Per California Government Code Section 53646, quarterly, the Department will report to Council (within 45 days after the end of the quarter) investment activity, including: the portfolio's performance in comparison to policy, explain any variances from policy, provide any recommendations for policy changes, and discuss overall compliance with the City's Investment Policy. In addition, the Department will provide Council with:

- a) An asset listing showing par value, cost and independent third-party fair market value of each security as of the date of the report, the source of the valuation, type of investment, issuer, maturity date and interest rate.
- b) A description of the funds, investments and programs (including lending programs) managed by contracted parties (i.e. LAIF; LGIPS, outside money managers and securities lending agents)
- c) A statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the California Government Code, including a justification for their presence in the portfolio and a timetable for resolution, and
- d) Report on the City's ability to meet expenditure requirements over the next six months.

Per California Government Code Section 53607, the Department shall provide a monthly report of

transactions (investments, reinvestment, sold, and exchanged securities) made during the month to the Council. This reporting requirement is separate and distinct from the quarterly investment report submitted under Code Section 53646.

Annually, the Administrative Services Department will present a Proposed Statement of Investment Policy, to include the delegation of investment authority, to the City Council for review during the annual budget process. All proposed changes in policy must be approved by the Council prior to implementation.

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| Adopted by City Council October 22, 1984 | Amended by City Council June 28, 2004 |
| Monthly reporting effective January 1985 | Amended by City Council June 20, 2005 |
| Amended and Adopted by City Council June 24, 1985 | Amended by City Council June 12, 2006 |
| Amended by City Council December 2, 1985 | Amended by City Council June 11, 2007 |
| Amended by City Council June 23, 1986 | Amended by City Council June 09, 2008 |
| Amended by City Council June 22, 1987 | Amended by City Council June 15, 2009 |
| Amended by City Council August 8, 1988 | Amended by City Council June 28, 2010 |
| Amended by City Council November 28, 1988 | Amended by City Council June 20, 2011 |
| Amended by City Council June 26, 1989 | Amended by City Council June 18, 2012 |
| Amended by City Council May 14, 1990 | Amended by City Council June 03, 2013 |
| Amended by City Council June 24, 1991 | Amended by City Council June 16, 2014 |
| Amended by City Council June 22, 1992 | Amended by City Council June 15, 2015 |
| Amended by City Council June 23, 1993 | Amended by City Council June 13, 2016 |
| Amended by City Council June 20, 1994 | Amended by City Council June 27, 2017 |
| Amended by City Council June 19, 1995 | Amended by City Council November 5, 2018 |
| Amended by City Council June 24, 1996 | Amended by City Council June 24, 2019 |
| Amended by City Council June 23, 1997 | Adopted by City Council June 22, 2020 |
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| Amended by City Council June 22, 1998 | Adopted by City Council June 20, 2022 |
| Amended by City Council June 28, 1999 | Adopted by City Council June 19, 2023 |
| Amended by City Council June 19, 2000 | Amended by City Council June 17, 2024 |
| Amended by City Council June 11, 2001 | Adopted by City Council June 16, 2025 |
| Amended by City Council June 17, 2002 | Adopted by City Council February 9, 2026 |
| Amended by City Council June 17, 2003 | |

APPENDIX A

EXPLANATION OF PERMITTED INVESTMENTS

1. **U.S. Government Securities:** 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.
2. **U.S. Government Agency Securities:** U.S. Government Agency Obligations include the securities of the Federal National Mortgage Association (FNMA), Federal Land Banks (FLB), Federal Intermediate Credit Banks (FICB), banks for cooperatives, Federal Home Loan Banks (FHLB), Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), Small Business Administration (SBA), Federal Farm Credit (FFC), and Federal Agricultural Mortgage Corporation (FAMC or FMAC). Federal agency securities differ from other types of securities, as well as among themselves. Their characteristics depend on the issuing agency. It is possible to distinguish three types of issues: (A) participation certificates (pooled securities), (B) Certificates of interest (pooled loans), (C) notes, bonds, and debentures. The securities of a few agencies are explicitly backed by the full faith and credit of the U.S. Government. All other issues purchased by the City have implied but not guaranteed backing from the federal government.
3. **Certificates of Deposit:** A certificate of deposit (CDs) is a receipt for funds deposited in a bank, savings bank, or savings and loan association for a specified period of time at a specified rate of interest. Denominations are \$250,000 and up. The first \$250,000 of a certificate of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC), if the deposit is with a bank or savings bank, or the Savings Association Insurance Fund (SAIF), if the deposit is with a savings and loan. CDs with a face value in excess of \$250,000 can be collateralized by U.S. Government Agency and Treasury Department securities or first mortgage loans. Government securities must be at least 110% of the face value of the CD collateralized in excess of the first \$250,000. The value of first mortgages must be at least 150% of the face value of the CD balance insured in excess of the first \$250,000. Generally, CDs are issued for more than 30 days and the maturity can be selected by the purchaser.
4. **Bankers' Acceptance:** A Banker's Acceptance (BA) is a negotiable time draft or bill of exchange drawn on and accepted by a commercial bank. Acceptance of the draft irrevocably obligates the bank to pay the bearer the face amount of the draft at maturity. BAs are usually created to finance the import and export of goods, the shipment of goods within the United States and storage of readily marketable staple commodities. In addition to the guarantee by the accepting bank, the transaction is identified with a specific commodity. Warehouse receipts verify that the pledged commodities exist, and, by definition, these commodities are readily marketable. The sale of the underlying goods generates the necessary funds to liquidate the indebtedness.

BAs enjoy marketability since the Federal Reserve Bank is authorized to buy and sell prime

BAs with maturities of up to nine months. The Federal Reserve Bank enters into repurchase agreements in the normal course of open market operations with BA dealers.

As are sold at a discount from par. An acceptance is tied to a specific loan transaction; therefore, the amount and maturity of the acceptance is fixed.

5. **Commercial Paper:** Commercial paper notes are unsecured promissory notes of industrial corporations, utilities, and bank holding companies. Interest is discounted from par and calculated using actual number of days on a 360-day year. The notes are in bearer form, with maturities up to 397 days selected by the purchaser, and denominations generally start at \$100,000. There is a small secondary market for commercial paper notes and an investor may sell a note prior to maturity.

Commercial paper notes are backed by unused lines of credit from major banks. Some issuer's notes are insured, while some are backed by irrevocable letters of credit from major banks. State law limits a City to investments in United States corporations having assets in excess of five hundred million dollars with an "A" or higher rating by a nationally recognized rating service for the issuer's debentures.

6. **Local Agency Investment Fund Demand Deposit:** The Local Agency Investment Fund LAIF) was established by the State to enable treasurers to place funds in a pool for investments. The City is limited to an investment of the amount allowed by LAIF. LAIF has been particularly beneficial to those jurisdictions with small portfolios. Palo Alto uses this fund for short-term investment, liquidity, and yield.
7. **Repurchase Agreements:** A Repurchase Agreement (REPOS) is a contractual arrangement between a financial institution or dealer and an investor. The agreement normally can run for one or more days. The investor puts up funds for a certain number of days at a stated yield. In return, the investor takes title to a given block of securities as collateral. At maturity, the securities are repurchased and the funds repaid, plus interest. Usually, amounts are \$500,000 or more, but some REPOS can be smaller.
8. **Mutual Funds:** Mutual funds are shares of beneficial interest issued by diversified management companies, as defined by Section 23701 M of the Revenue and Taxation Code. To be eligible for investment, these funds must:
 - a) Attain the highest ranking in the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services; or
 - b) Have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations, as authorized by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code, and with assets under management in excess of five hundred million dollars; and

- c) Invest solely in those securities and obligations authorized by Sections 53601 and 53635 of the California Government Code. Where the Investment Policy of the City of Palo Alto may be more restrictive than the State Code, the Policy authorizes investments in mutual funds that shall have minimal investment in securities otherwise restricted by the City's Policy. Minimal investment is defined as less than 5% of the mutual fund portfolio; and
 - d) The purchase price of shares of beneficial interest purchased shall not include any commission that these companies may charge.
 - e) Have a net asset value of \$1.00.
9. **Callable Securities and Multi-Step-ups:** Callable securities are defined as fixed interest rate government agency securities that give the issuing agency the option of returning the invested funds at a specific point in time to the purchaser. Multi-step-ups are government agency securities in which the interest rate increases ("steps-up") at preset intervals, and which also have a callable option that allows the issuing agency to return the invested funds at a preset interval.
10. **Negotiable Certificates of Deposit (NCD):** NCDs are large-dollar-amount, short-term certificate of deposit. Such certificates are issued by large banks and bought mainly by corporations and institutional investors. They are payable either to the bearer or to the order of the depositor, and, being negotiable, they enjoy an active secondary market, where they trade in round lots of \$5 million. Although they can be issued in any denomination from \$100,000 up, the typical amount is \$1 million also called a Jumbo Certificate of Deposit.
- State law prohibits the investment of local agency funds in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or any person with investment decision making authority in the administrative, manager's, budget, auditor-controller's, or treasurer's offices of the local agency also serves on the board of directors, other credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificate of deposit.
11. **Medium-Term Corporate Notes:** 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. According to California Government Code Section 53601, "Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Purchase of medium-term notes shall include other instruments authorized by this section and shall not exceed 30% of the agency's moneys that may be invested pursuant to this section."
12. **Supranational Securities:** California Government Code Section 53601 defines allowable supranational securities as United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the International Finance Corporation, and Inter- American

Development Bank. Supranationals are well capitalized and in most cases have strong credit support from contingent capital calls from their member countries. Section 53601 was amended effective January 1, 2015 to allow local agencies to invest in the senior debt obligations of these three supranational issuers which are eligible for purchase and resale within the United States. These entities were established with the purpose of ending poverty and raising the standard of living around the world through sustainable economic growth.

a) The supranationals are international organization owned by member countries. These are:

- **International Bank for Reconstruction and Development (IBRD or World Bank)**, a member of the World Bank Group, provides direct loans and guarantees to sovereigns and government-backed projects
- **International Finance Corporation (IFC)**, a member of the World Bank Group, supports the creation and growth of private companies through direct lending and equity investment, attracting third party capital, and providing advisory services
- **Inter-American Development Bank (IADB)**, a member of the Inter- American Development Bank Group, provides loans, grants, and guarantees to sovereigns in Latin America and the Caribbean

b) Additional characteristics shared by the IBRD, IFC, and IADB include:

- Headquartered in Washington, D.C. with the United States as the largest shareholder of each organization

13. **Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations** are securities that represent pools of debt collateralized by an underlying pool of assets—usually ones that generate a cash flow from debt, such as mortgages, loans, leases, credit card balances, or receivables. It takes the form of a bond or note, paying income at a fixed rate for a set amount of time, until maturity.

APPENDIX B**EXPLANATION OF PROHIBITED INVESTMENTS**

1. **Reverse Repurchase Agreements:** A Reverse Repurchase Agreement (Reverse REPO) is a contractual agreement by the investor (e.g. local agency) to post a security it owns as collateral, and a bank or dealer temporarily exchanges cash for this collateral, for a specific period of time, at an agreed-upon interest rate. During the period of the agreement, the local agency may use this cash for any purpose. At maturity, the securities are repurchased from the bank or dealer, plus interest.

California law contains a number of restrictions on the use of Reverse REPOS by local agencies.

2. **Derivatives:** A derivative is a financial instrument created from, or whose value depends on (is derived from), the value of one or more underlying assets or indices. The term "derivative" refers to instruments or features, such as forwards, futures, currency and interest rate swaps, options, caps and floors. Except for those callable and multi-step-up securities as described under Permitted Investments, derivatives are prohibited.

Certain derivative products have characteristics which could include high price volatility, liquid markets, products that are not market-tested, products that are highly leveraged, products requiring a high degree of sophistication to manage, and products that are difficult to value.

According to California law, a local agency shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages.

APPENDIX C

GLOSSARY OF INVESTMENT TERMS

AGENCIES: Federal agency and instrumentality securities.

ASKED: The price at which securities are offered.

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

BROKER: A person or institution that conducts investment transactions on behalf of the buyer and seller of the investment and earns a commission on the transaction.

COLLATERAL: Securities, evidence of deposit, or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): The official annual report for the City of Palo Alto. It includes combined financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles and pronouncements set forth by the Governmental Accounting Standards Board (GASB). The ACFR also includes supporting schedules that are necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed statistical section.

COUPON: The annual rate of interest that a bond’s issuer promises to pay the bondholder on the bond’s face value or the certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

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

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: (1) delivery versus payment (DVP); and (2) delivery versus receipt (DVR). DVP is delivery of securities with an exchange of money for the securities. DVR is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the acquisition cost of a security and its value at maturity when quoted at lower than face value. A security that sells below original offering price shortly after sale, is also considered to be at a discount.

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

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

FEDERAL AGRICULTURAL MORTGAGE CORPORATION (“FAMC” or “FMAC”): A federal agency established in 1988 to provide a secondary market for farm mortgage loans. Informally called *Farmer Mac*.

FEDERAL CREDIT AGENCIES: Agencies of the Federal Government that were established to supply credit to various classes of institutions and individuals (e.g., S&Ls, small business firms, students, farmers, farm cooperatives, and exporters).

FEDERAL DEPOSIT INSURANCE CORPORATION (“FDIC”): A federal agency that insures all types of deposits received at an insured bank, including deposits in a checking account, negotiable order of withdrawal (NOW) account, savings account, money market deposit account (MMDA) or time deposit such as a certificate of deposit (CD). FDIC insurance covers depositors' accounts at each insured bank, dollar-for-dollar, including principal and any accrued interest through the date of the insured bank's closing, up to the insurance limit.

The FDIC does not insure money invested in stocks, bonds, mutual funds, life insurance policies, annuities or municipal securities, even if these investments are purchased at an insured bank. The FDIC does not insure U.S. Treasury bills, bonds or notes, but these investments are backed by the full faith and credit of the United States government.

The standard maximum deposit insurance amount is described as the “SMDIA” in FDIC regulations. The SMDIA is \$250,000 per depositor, per insured bank.

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

FEDERAL HOME LOAN BANKS (“FHLB”): Government-sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions, and insurance companies. The mission of the FHLBs is to liquefy the housing-related assets of its members, who must purchase stock in their District Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (“FNMA”): FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (“FOMC”): The FOMC consists of seven members of the

Federal Reserve Board and five of the 12 Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of government securities in the open market, as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., 12 regional banks, and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (“GNMA” or “Ginnie Mae”): Securities that influence the volume of bank credit that is guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. A security holder is protected by the full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FMHM mortgages. The term “pass-throughs” is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow, and reasonable amount can be done at those quotes.

LOCAL GOVERNMENT AGENCY: A local government agency is any city, county, city and county, district, or other local governmental body or corporation, including the California State Universities (CSU) and University of California (UC) systems, K-12 schools and community colleges empowered to expend public funds.

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

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

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establish each party’s rights in the transactions. A master agreement will often specify, among other things, the right of the buyer (lender) to liquidate the underlying securities in the event of default by the seller (borrower).

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

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

OFFER: The price asked by a seller of securities (when one buys securities, one asks for an offer). See “Asked” and “Bid”.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank, as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: A collection of securities that an investor holds.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions, and monthly financial statements to the Federal Reserve Bank of New York, and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) -- registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT INVESTOR RULE: An investment standard cited in the California Government Code Section 53600 et seq. Under this standard, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

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

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION: An agency created by Congress to administer securities legislation for the purpose of protecting investors in securities transactions.

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

yield curve.

SUPRANATIONALS: International institutions that provide development financing, advisory services and/or financial services to their member countries to achieve the overall goal of improving living standards through sustainable economic growth. The California Government Code Section 53601 allows local agencies to purchase the United States dollar denominated senior 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).

TIME CERTIFICATE OF DEPOSIT: A non-negotiable certificate of deposit, which cannot be sold prior to maturity.

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

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

TREASURY NOTES: Medium-term, coupon-bearing U.S. Treasury securities that are issued as direct obligations of the U.S. Government, and having initial maturities of two to 10 years.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

YIELD-TO-CALL (YTC): The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

YIELD-TO-MATURITY: The current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity.

ZERO-COUPON SECURITIES: Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

Recommended: 
66236E5C20284BC
Chief Financial Officer

2/12/2026
Date

Approved: 
F2DCA19CCC8D4F9...
City Manager

2/18/2026
Date

Certificate Of Completion

Envelope Id: FF90AB84-E695-496A-BEBC-2DC8ED240533
 Subject: Complete with Docusign: 1-39 ASD Investment Policy.pdf
 Source Envelope:
 Document Pages: 24
 Certificate Pages: 2
 AutoNav: Enabled
 Envelopeld Stamping: Enabled
 Time Zone: (UTC-08:00) Pacific Time (US & Canada)

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Signer Events

Lauren Lai
 Lauren.Lai@paloalto.gov
 Director Administrative Services/CFO
 COPA
 Security Level: Email, Account Authentication (None)

Signature

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 Signature Adoption: Drawn on Device
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Timestamp

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Ed Shikada
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 City Manager
 City of Palo Alto
 Security Level: Email, Account Authentication (None)

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 Signature Adoption: Pre-selected Style
 Using IP Address: 199.33.32.254

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 Signed: 2/18/2026 3:08:37 PM

Electronic Record and Signature Disclosure:
 Not Offered via Docusign

| In Person Signer Events | Signature | Timestamp |
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| Agent Delivery Events | Status | Timestamp |
| Intermediary Delivery Events | Status | Timestamp |
| Certified Delivery Events | Status | Timestamp |
| Carbon Copy Events | Status | Timestamp |
| Witness Events | Signature | Timestamp |
| Notary Events | Signature | Timestamp |
| Envelope Summary Events | Status | Timestamps |

| Envelope Summary Events | Status | Timestamps |
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| Certified Delivered | Security Checked | 2/18/2026 3:08:24 PM |
| Signing Complete | Security Checked | 2/18/2026 3:08:37 PM |
| Completed | Security Checked | 2/18/2026 3:08:37 PM |

| Payment Events | Status | Timestamps |
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