City of Villa Park
17855 Santiago Boulevard
Villa Park, California 92861
(714) 998-1500

INVESTMENT ADVISORY COMMITTEE
Special Meeting
June 1, 2011
9:00 a.m.

The Investment Advisory Committee of the City of Villa Park welcomes you to this meeting. We encourage your participation. This agenda contains a brief description of each item to be considered.

If you wish to speak on an item contained on the agenda, please approach the podium at the time the item is being considered. Upon recognition by the Chair, state your name and address for the record prior to providing your comments. Speakers will be limited to a time period set by the presiding officer.

All supporting information is available for public review in the City Hall offices.

Please Note: In compliance with the Americans with Disabilities Act, the City of Villa Park will make every reasonable attempt to accommodate attendees or participants at this meeting who need special assistance beyond what is normally provided. Please contact the City Hall at (714) 998-1500 at least 48 hours prior to this meeting to inform us of particular needs and to determine if accommodation is feasible, Please advise us at the time of your call if special assistance is required to attend or participate in meetings on a regular basis.

ORDER OF BUSINESS

1. CALL TO ORDER

2. ROLL CALL

   William Nelson, Chair, Investment Advisory Committee
   William Underwood, Vice-Chair, Resident Member
   Dan Carlberg, Resident Member
   Bob Fauteux, Councilmember, Chair City Council Finance Committee
   Rich Ulmer, Mayor, City Council Finance Committee
   Dennis Kuli, City Treasurer

3. PLEDGE OF ALLEGIANCE

4. PUBLIC COMMENT

5. DISCUSSION ITEMS

   a) Review of April 2011 Regular Minutes.

   b) Sandra Wheeler, Wells Fargo Advisors, Inc. to present additional investment options along with answering questions posed by Vice-Chair Underwood via the attached email on May 2, 2011.

6. ADJOURNMENT

   Next regular meeting date is July 20, 2011 at 9:00 AM.

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17855 Santiago Boulevard
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INVESTMENT ADVISORY COMMITTEE
Summary Minutes
April 25, 2011

1. CALL TO ORDER
The meeting was called to order at 3:36 pm by Chair Nelson.

2. ROLL CALL
The following members and attendees were present:

Bill Nelson, Chair, Investment Advisory Committee
Bill Underwood, Vice-Chair, Resident Member
Bob Fauteux, Councilmember, City Council Finance Committee Chair
Rich Ulmer, Mayor, City Council Finance Committee
Lori Sassoon, City Manager

The following members and attendees were absent:

Dan Carlberg, Resident Member
Dennis Kuli, City Treasurer
Michelle Danaher, Finance Director

3. PLEDGE OF ALLEGIANCE
The Pledge of Allegiance was led by Chair Nelson.

4. PUBLIC COMMENT
No public comment.

5. DISCUSSION ITEMS

a. Review of January 2011 regular minutes and March 2011 special minutes - Bill Underwood moved approval, seconded by Mayor Ulmer. Motioned carried 3-0, with Councilmember Fauteux not voting.

b. Review and discuss current investment activities – There was no discussion on this item, with discussion moving to Item 5 c.

c. Discuss Additional Investment staff report – Lori Sassoon stated that this was agendized at the request of the Budget and Finance Committee meeting, following its last meeting, so the Councilmembers could have a better understanding of the IAC's recommendations regarding government agency instruments.

Discussion ensued regarding matters of additional risk. No further action was taken, and the consensus of the IAC was to move forward with the recommendations. Following City Council approval on April 26, staff will contact Wells Fargo for a list of specific recommended investments and forward that to the IAC. If there are no concerns, staff will make the investments; if Committee Members note issues, staff will arrange a special meeting for discussion prior to making investments.

d. Discuss time of quarterly meetings –, that IAC meetings will be the third Wednesday of the first month of each quarter, at 9:00 a.m. The next regular meeting will be on July 20, 2011.

e. Revisions to Investment Policy – Bill Underwood provided notes regarding corrections and improvements to the Investment Policy as presented. Bill Underwood made a motion, seconded by Councilmember Fauteux and carried unanimously, to recommend approval of the Investment Policy as amended.

6. ADJOURNMENT
The meeting was adjourned at 4:40 pm. The next regular meeting of the IAC will be held on Wednesday, July 20, at 9:00 a.m.

CITY OF VILLA PARK
TREASURER'S REPORT OF CASH ON DEPOSIT AND INVESTED
30-Apr-11

	Purchase Date	Maturity Date	Guaranteed Rate	Admin Fees Paid	Market Value	Estimated Annual Yield to Maturity	Par Value	Balance Amount		% of Total Investment
Cash on Deposit										
F&M Checking Account								$ 337,731.37		12%
F&M Parking Citation Account**			0.05%	*** $ -				1,000.00		0%
F&M Money Market Account			0.24%	*** $ -				42,807.71		1%
Petty Cash								400.00		0%
WF Cash Bank Deposit Sweep								-		0%
Investments										
State-Local Agency Investment Fund**			0.59%	**	1,310,485.53 +			1,308,334.92	1	46%
Orange County Investment Pool			0.70%	*				667,235.34	2	23%
Certificates of Deposits:										
Associated Bank WI	2/3/2010	8/3/2011	0.85%	^	100,136.00	0.84%	100,000.00	100,333.95	#,4	4%
Columbus Bank & Trust CO	1/29/2010	7/30/2012	1.55%	^	100,792.00	1.53%	100,000.00	101,174.19	#,4	4%
GE Money Bank CD	8/13/2010	8/13/2013	1.55%	^	100,381.00	1.54%	100,000.00	100,699.49	#,4	4%
Midfirst Bank OK	2/3/2010	2/3/2014	2.25%	^	101,814.00	2.20%	100,000.00	102,337.97	#,4	4%
American Express Centurion Bank	2/3/2010	2/3/2015	2.80%	^	102,847.00	2.72%	100,000.00	103,499.06	#,4	4%
Subtotal of Certificates of Deposits							*500,000.00*		3	*17%*
TOTAL CASH ON DEPOSIT & INVESTED								**$ 2,865,554.00**		**100%**

* Monthly Annualized Interest Rate (gross) - admin. charges for month: $ 59.10
** Prior Months Annualized Interest Rate
*** Monthly Annualized Interest Rate
+ Market Value Local Agency Investment Fund as of June 2010
^ CD's were purchased through our authorized broker dealer, Wells Fargo Advisors, LLC.
# Market value plus accrued interest at the end of the month.
1 Not to exceed 80% of total investments
2 Not to exceed 33% of total investments
3 Not to exceed 25% of total investments at time of purchase.
4 Not to exceed 5% of a single issuer at the time of purchase.

I hereby certify that this report accurately reflects all the City of Villa Park Investments and complies with the investment policy of the City of Villa Park as approved by the City Council.
I hereby certify that sufficient investment liquidity and anticipated revenues are available to meet the City's budgeted expenditure requirements for the next six months.

City Treasurer

Date Submitted to City Council

gl $ 2,857,509.34

U:\Michelle\Treasurer's Report\Treasurers Report 2011Apr 11

Monthly Cash Analysis
As of 4/30/11

Month	Fiscal Year 2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11		Annual Cash Average
July	2,157,716.16	2,066,970.84	2,057,247.60	2,155,842.54	1,834,829.93	1,629,419.01	2,330,513.12	2,325,293.53	3,029,682.15	2,006,211.19	*	2,159,372.61
August	1,789,702.12	1,963,852.54	1,715,538.57	2,062,312.44	1,661,497.43	1,688,323.60	2,006,854.03	2,137,123.97	2,810,920.66	1,888,897.72	*	1,972,502.31
September	1,726,004.42	2,000,760.90	1,671,443.20	1,633,703.01	1,524,362.96	1,552,077.91	2,112,212.18	2,069,801.14	2,483,578.08	1,785,904.42	*	1,855,984.82
October	1,665,536.14	1,951,824.08	1,645,881.58	1,510,718.71	1,425,308.42	1,553,442.48	1,860,605.69	1,881,990.85	2,237,848.70	1,985,405.16	*	1,771,856.18
November	1,605,378.32	1,959,449.01	1,724,770.06	1,574,593.88	1,352,085.37	1,667,959.78	1,781,284.82	1,904,807.90	2,253,193.98	1,868,025.15	*	1,769,154.83
December	1,794,755.57	2,067,899.84	1,953,559.39	2,160,088.34	1,526,656.42	2,082,728.18	2,410,563.28	2,547,409.95	2,758,043.85	2,487,206.79		2,178,891.16
January	1,833,622.67	1,988,237.92	1,879,742.42	2,068,537.90	1,773,732.82	2,499,839.82	2,613,254.94	2,875,714.27	2,923,242.01	2,890,699.40		2,334,662.42
February	1,812,473.77	1,932,571.30	1,846,165.53	1,945,588.33	1,553,595.44	2,474,449.42	2,231,402.31	2,435,405.46	2,681,111.97	2,784,580.53		2,169,734.41
March	1,800,572.01	1,918,799.59	1,986,797.00	1,910,141.61	1,413,897.33	1,979,322.37	2,318,919.12	2,322,817.69	2,567,271.14	2,357,432.87		2,057,597.07
April	1,975,386.57	2,124,014.56	2,215,507.89	2,113,797.70	1,630,189.95	2,509,767.67	2,863,404.74	2,968,242.86	3,150,989.50	2,857,509.34		2,440,881.08
May	2,125,479.55	2,175,875.11	2,249,427.87	2,299,469.08	1,922,273.76	2,641,566.75	2,959,817.97	2,879,334.88	2,897,592.84			2,461,204.20
June	2,011,636.71	2,110,937.88	2,179,797.00	2,228,027.43	1,760,053.86	2,434,198.80	2,636,786.88	2,800,449.29	2,599,847.08			2,306,859.44
Annual Average	1,858,188.67	2,021,766.13	1,927,156.51	1,971,901.75	1,614,873.64	2,059,424.65	2,343,801.59	2,429,032.65	2,699,443.50	2,291,187.26	*	2,357,419.59
Less Laddered CD investments									(500,000.00)	(500,000.00)		(500,000.00)
Annual Liquid Average	1,858,188.67	2,021,766.13	1,927,156.51	1,971,901.75	1,614,873.64	2,059,424.65	2,343,801.59	2,429,032.65	2,449,443.50	1,791,187.26		2,304,788.01

* The reason for the lower cash balance is a direct result of the $640,000 of grant reimbursements pending from capital projects at the end of FY 2009-10.
Represents the lowest cash balance of the fiscal year.

Michelle Danaher

From: uwood42 @dslextreme.com [uwood42@dslextreme.com]
Sent: Monday, May 02, 2011 2:03 PM
To: Wheeler, Sandra
Cc: Bill Nelson; Bob Fauteux; Daniel J. Carlberg; Dennis Kuli; Jason Hildenbrand; Lori Sassoon; Michelle Danaher; Rich Ulmer; Dennis & Jill Kuli
Subject: Questions about VP's Fed GSE/Gov't Agency Bond Potential Portfolio

Sandra -

At your request, here is a list of starter questions as it relates to the Government Agency ladder portfolio that were stimulated by your representative portfolios..
In addition, I will copy the Villa Park Investment Advisory Committee as well, so they can submit to you additional questions or areas of concern that are not here, in preparation for the meeting.

Let me first briefly state the base of VP's investment objectives, strategies and tactics for the proper context.

As you know from reading the Villa Park Investment Strategy, the City's investment objectives are:

1. Villa Park's **Investment Objectives -**
"The three primary objectives, in priority order, of the City's investment activities shall be:

A.

Safety: Safety of principal is the foremost objective of the investment program. The City's investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

B.

Liquidity: The City's investment portfolio will remain sufficiently liquid to meet all operating requirements that might be reasonably anticipated within six months.

C.

Yield: The City shall manage its funds to optimize the return on investments consistent with the two primary objectives of safety and liquidity. The rate of return on investment should be designed to attain a market rate of return through budgetary and economic cycles consistent with the risk limitations, prudent investment principles and cash flow requirements identified by the City's Investment Policy."

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2. Assessment of **Investment Risks**. as stated in the City's Investment Strategy -

"In pursuing the safety of principal investment of City funds, the City's investment program will review and mitigate Credit risk and Market risk.

A. **Credit Risk** - Credit risk is defined as the risk of loss due to the failure of an issuer to redeem the outstanding debt at the stated maturity date. Within this concept, Credit risk also applies to the overall market perception of the financial strength and capacity of the issuer. Diversification of the investment portfolio by issuer, maturity date and amount invested will ensure that in the event of a failure of any one issuer, the event will not unduly harm or compromise the City's cash flow.

B. **Market or Interest Rate Risk –** Market or Interest Rate risk is the risk that the market value of investment securities in the portfolio may decline due to changes in general interest rates. Market rate risk can be mitigated by diversifying the investment of funds by maturity date and by investing funds to meet a specific cash requirement that would reduce the need to sell the security prior to maturity to meet immediate City cash flow needs."

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3. V.P.'s Investment Advisory Committee's **Investment Tactics -**

A. **MATCHING -**
To match Villa Park's Long-Term Reserve monies to Longer Term, Higher Quality Investment instruments to obtain the higher yields of longer term investments, but not to exceed the State mandated 5 year maturity horizons.

B. **LONG-TERM YIELDS -**
To invest at conservative, improved yields at a low risk level in Longer-Term obligations that exceed the Short-Term immediate liquidity rates of OCIP, LAIF and the F&M Money Market.

C. **AVERAGE YIELDS OVER TIME -**
To ladder investments over 5 years terms to avoid trying to predict interest rates or trend timing. i.e. - Spread the investment maturities evenly over a 5 year period and reinvest as those maturities come due annually.

D. **RENEWED LIQUIDITY EVERY 6 MONTHS -**
To offset the maturity dates of the Federal Agency Bond portfolio by 6 months from the Certificate of Deposits portfolio to ensure a consistent liquidity and reinvestment timing flow.

E. **ROUTINIZE THE TRANSACTIONS FOR SIMPLICITY AND CONTINUITY -**
Background - Staff time is scarce as is their research time, but they can make transactions with direction.
Investment expertise is currently vested in a volunteer Investment Advisory Committee, which

meets quarterly, and in the outside Investment Broker.
Due to Villa Park's size, no Investment Manager has been engaged, so **investments are to be kept simple and safe.**
Tactic Desired - Thus, the process for the transactions should be kept simple and proceduralized to avoid surprises.
The process also needs to be kept current and documented, so that continuity is ensured, regardless of any personnel disruptions.

Situational Analysis

The fiscal tone set by the City Council, Finance/Budget committee and Investment Advisory Committee is one of prudent and conservative municipal fiscal stewardship in spending, taxation and investing. This hands-on small city strategy by volunteer Councilpersons and Committee members has been successful throughout volatile financial times for Orange County, California State and Federal governments.
In Investment matters, the Preservation of Villa Park's Principal is paramount.

As you know and with your assistance, Introducing investments with a laddered Certificate of Deposits portfolio was done cautiously last year, after much discussion and has become recently well accepted by all. Desiring to move to a low risk or risk free portfolio with improved yields over F&M MMA (0.25%) OCIP (0.6%), LAIF (0.5%) and FDIC insured and laddered CD's (2.3% and soon to be higher as we move up the ladder in maturity lengths), it was decided that we should explore a Government Agency Bond portfolio to obtain higher, safe yields with an additional $500,000 of longer term money.

We are ready to embark on this as a City, but we have some basic questions about the nature of Government Agency obligations.

Questions and Issues

1. FDIC insurance versus GSE repayment guarantee -
A question from the Finance and Budget Committee as to risk -
"Is the additional slight increase in yield for Federal Government Sponsored Entity (GSE's) Bonds worth the risk over Federally insured Certificate of Deposits?"

2. Federal Agencies vs. GSE's -
If we include only Federal Agency bonds instead of GSE's obligations do we diminish the yield considerably?

3. Fannie Mae/Freddie Mac current status -
Is the fact that Fannie Mae and Freddie Mac were placed in Financial Conservatorship make these obligations higher risk than the AAA shown on the portfolio?
We understand that there are lots of opinions about the future, but here is some of the current landscape of which you and your firm are aware.

a. On September 6, 2008, the director of the Federal Housing Finance Agency (FHFA), James B. Lockhart III, announced his decision to *place two Government sponsored enterprises (GSEs), Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation), into conservatorship* run by the FHFA.

b. On June 16, 2010, it was announced that the two GSEs would be have their shares *delisted from the NYSE.*

c. To conserve over $2 billion annually in capital, the common stock and preferred stock *dividends will be eliminated*, but the common and all preferred stocks will continue to remain outstanding. Subordinated *debt interest and principal payments will continue to be made.*

d. **Chinese Economist Warns Of Risks In Freddie Mac, Fannie Mae Bonds**
FEBRUARY 10, 2011

BEIJING (Dow Jones)--A popular Chinese economist on Thursday said China should be aware of risks in its holdings of debt issued by U.S. government-controlled mortgage giants Fannie Mae (FNMA) and Freddie Mac (FMCC), and suggested that China sell the securities soon.

The report by Lu Zhengwei, a senior economist at China's Industrial Bank Co., doesn't represent the views of China's leadership, but it does highlight persistent concerns about the security of Fannie Mae and Freddie Mac securities among Chinese civilians and some influential thinkers.

e. **Pimco's Bill Gross Dumping Treasuries Leads Managers Calling Rally's End**

By Sree Vidya Bhaktavatsalam - Mar 9, 2011

March 10 (Bloomberg) -- Bill Gross has dumped all Treasuries from the world's biggest mutual fund. Pacific Investment Management Co. said yesterday that Gross, who runs the $237 billion Pimco Total Return Fund, eliminated government-related debt from his flagship fund last month as the U.S. projected record budget deficits. Bloomberg's Deirdre Bolton reports. (Source: Bloomberg)

Bill Gross has dumped all Treasuries from the world's biggest mutual fund, Warren Buffett is shifting to shorter-term debt, and Swiss Reinsurance Co. is boosting equities and corporate bonds.

Some of the biggest private investors in the bond market, from fund managers to insurers and pensions, are preparing for an end to the three-decade Treasury rally, as interest rates near zero and unprecedented spending by the U.S. government and the central bank threaten to fuel inflation. Their strategies range from reducing the longest-dated holdings and shifting to higher-yielding corporate debt, to investing in stocks, commodities, non-U.S. bonds and even holding cash.

"U.S. government bonds are not a safe haven," Jim Rogers, the global investor who predicted the 2007-2009 housing-market crash, said in a telephone interview from Singapore. "I cannot conceive of lending money to the U.S. government for 30 years."

Pacific Investment Management Co. said yesterday that Gross, who runs the $237 billion Pimco Total Return Fund, eliminated government-related debt from his flagship fund last month as the U.S. projected record budget deficits. Gross, who has overseen the expansion of Pimco into a $1.2 trillion bond shop over four decades, predicted a year ago that "bonds have seen their best days." Last month, he said Treasuries may have to be "exorcised" from model portfolios.

The bonds, considered the safest and most liquid, have been an investment staple for generations. The U.S. is the world's biggest debt issuer, with $14.2 trillion outstanding. Most of that is owned by U.S. government entities, foreign countries such as China and Japan, and investors including mutual funds, pension funds, insurers and banks.

f. **Ratings agency S&P downgrades outlook for US government debt**

April 11, 2011

Standard and Poor's (S&P), the debt rating agency, announced a lowering of its outlook for United States debt Monday, in a move aimed at pressuring the US government to set in place harsh austerity measures before the 2012 elections.

S&P changed its outlook on the AAA rating of US debt from stable to negative. In a press release, the rating firm quoted its credit analyst, Nikola G. Swann, as saying: "Our negative outlook on our rating on the US sovereign debt signals that we believe there is at least a one-in-three chance that we could lower our long-term rating on the US within two years. The outlook reflects our view of the increased risk that the political negotiations over when and how to address both the medium- and long-term fiscal challenges will persist until at least after the national elections in 2012."

4. Yield Curve -
Is the yield curve getting upside down with 1 year bonds paying more than 2 and 3 year bonds, as we noticed in your representative portfolio or was that just an increased yield for the Fannie Mae 1 year bond, as we saw the 1 year obligation @ 1.75%, but the 2 year obligation @ 1.2% and 3 yr obligation @ 1.45%?

5. Callable Features -
We noticed that all the Bonds are callable in the potential portfolio? Can you explain the relative benefits of disadvantages of this for Villa Park, as we don't wish to get caught off guard with callable features. Are there other features we need to be made aware of?

We read that when a large portion of agency debt is callable, that can be a good investment if you think yields are likely to rise.

Since callable bonds contain an embedded call option (exercisable by the seller), they generally carry higher yields to compensate for the risk of the bond being called. Some callable agency bonds are callable at any time, while others are monthly, quarterly or even on only one specific date prior to maturity. Alternatively, some agency bonds are issued with a put provision exercisable by the bond holder, which can benefit the purchaser if yields rise.

Although embedded calls and puts are perhaps the most important and most common provisions to identify when purchasing bonds, there are many other structures and provisions to look for as well. Somewhat common is a step-up structure, in which the coupon rises as the bond approaches maturity. Step-ups are often attached to callable bonds, making them more likely to be called as the coupon rises (since the issuer is more likely to retire the debt when it has a larger coupon to pay).

6. Increased GSE or Governmental Agency Yields over CDs & local government fund monies -
Is it typical in our current investment climate that GSEs and Government agencies have a 0.7%-1.0% differential over CD's and a 2% differential over the OCIP/LAIF yields?

7. Six month maturity offsets in Fed Agency/GSE porfolio from CD portfolio maturities -
Is that possible with Wells inventories without compromising yields?

8. Background of other agencies/GSEs in portfolio -
Can you send latest description and analysis of these agencies as well so we can know what we understand the nature of what we are investing in?

9. What other information should we be aware of?

10. What is Wells Fargo research view on the nature of what local governments with conservative goals should be placing their reserve fund monies in 1 to 5 years obligations?

Sorry for the lengthy email, but hope that serves to clarify.
Enough?
Too much?

For VP IAC members, Treasurer and Staff -
Please feel free to add to this if you have additional questions or concerns, so Sandra and all can be prepared to address the issues at the next meeting, if you wish.

Sandra -
We very much appreciate what you do for us and advancing up the investment curve for a municipality.
Thanks very much.

Have a great vacation.

- Bill
Cell 714 264 8137

On Fri, Apr 29, 2011 at 10:38 AM, Wheeler, Sandra <sandra.wheeler@wellsfargoadvisors.com> wrote:

> Bill,
>
> I will be on vacation May 16-23 and returning to the office on May 24th. If you can provide me with a list of questions, I'm able to provide answers and update the proposals before I leave. I'm available for a conference call meeting before and after my return, which ever is more convenient for everyone. Sorry about the timing of my vacation but it has been planned for a while.
>
> Thank you,
>
> Sandra Wheeler

Financial Advisor
Associate Vice President- Investment Officer

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Local 805.543.3223
Fax 805.543.3233
email: sandra.wheeler@wellsfargoadvisors.com
website: www.wfadvisors.com/sandra.wheeler

From: uwood42 @dslextreme.com [mailto:uwood42@dslextreme.com]
Sent: Thursday, April 28, 2011 2:02 PM
To: Wheeler, Sandra
Subject: Re: March Statement

Sandra -
Thanks much.
I forwarded the report to the VP Investment Advisory Committee since it came a morning after our afternoon meeting.

Our next quarterly meeting was to be in late July, but it appears we will meet in late May to address the nature of the portfolio you presented and recognize it will be just a representative one by then, but since this is a new initiative for Agency Obligations versus Bank CDs, the committee has many natural questions in the current environment. That Monday meeting will be in advance of the Tuesday City Council monthly meeting.

I hope you will be able to join us by phone on Monday, May 24th for the VP Investment Advisory committee, if it does get scheduled for that date.
I will send you more details when I get them as a belt and suspenders communication, if OK.

Also I will forward you later some of the background questions raised by the committee and due dillgence information sought that I put in an email to the committee, which includes the Mayor and a Councilman who is on the Finance/Budget committee too, and previously served on one of the OC bankruptcy oversight committees in the 90's.

Thanks again.
Bill

On Thu, Apr 28, 2011 at 10:10 AM, Wheeler, Sandra <sandra.wheeler@wellsfargoadvisors.com> wrote:

> Bill,
>
> Per your request, I have attached last months statement for VP. Have you heard how the council meeting went this week?
> I was going to call Michelle tomorrow to see if they approved the purchase of the 5 year Gov't Agency Ladder.
>
> Thank you,
>
> Sandra
>
>

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Michelle Danaher

From: Wheeler, Sandra [sandra.wheeler@wellsfargoadvisors.com]
Sent: Wednesday, May 25, 2011 9:12 AM
To: Michelle Danaher
Cc: Bill Nelson; William Underwood
Subject: Gov't Agency Ladder

Michelle,

I have attached two Government Agency Ladder proposals. The first proposal illustrates a five year ladder using bonds with maturities
which do not mature every 6 months with current CD portfolio. The second proposal titled VPGOVLADDER illustrates bonds maturing
within six months of existing CD portfolio. The IAC had asked if yield would be compromised if laddered to mature within six month of
CD portfolio. I have a second email to send to you this morning completing my report.

Sandra Wheeler
Financial Advisor
Associate Vice President- Investment Officer

Wells Fargo Advisors
711 Tank Farm Rd. Suite 200
San Luis Obispo, CA 93401
Toll Free 888.543.3223
Local 805.543.3223
Fax 805.543.3233
email: sandra.wheeler@wellsfargoadvisors.com
website: www.wfadvisors.com/sandra.wheeler

From: Powell, Cynthia
Sent: Wednesday, May 25, 2011 8:50 AM
To: Wheeler, Sandra
Subject:

Based off VPGOVTLADDER pdf & current CD portfoilo

Maturities
08/03/2011 CD
01/06/2012 AGENCY
07/03/2012 CD
04/25/2013 AGENCY
08/13/2013 CD
02/03/2014 CD
08/25/2014 AGENCY
02/03/2015 CD
06/30/2015 AGENCY
02/02/2016 AGENCY

Michelle,

In response to the questions and concerns of investing in Government Agency Bonds, I have prepared answers and information for you to share with your investment committee. I will use the formatted questions that Bill Underwood provided from your last VP IAC meeting.

1. FDIC insurance versus GSE repayment guarantee - "Is the additional slight increase in yield worth the risk over Federally Insured Certificates of Deposit?" FDIC is an independent agency of the US Government and is funded by premiums that banks and thrift institutions pay for deposit insurance coverage and from earnings on investments in US Treasury securities. There are two types of CD's;

1. Non Negotiable CD's are bank issued and specific to that bank branch and can't be sold prior to maturity, so the investor can only receive payment from that issuing bank. If money is withdrawn before maturity, then the bank pays a lower rate of interest as an early withdrawal penalty.

2. Negotiable CD's are offered through brokerage firms and can be sold and traded before maturity in the secondary market. Typically Brokered CD's yield less than Bank CD's. There has never been a default within the FDIC insured limit.

U.S. Government Agencies and government sponsored enterprise (GSE) are supported by the full faith and credit of the U.S. government. These bonds usually offer higher yields than Treasury securities because they do not offer full faith and credit guarantee that Treasury securities offer. In summary Government Agencies have the implied backing of the U.S. Government whereas Treasuries have guaranteed backing. There has never been a default on Government Agency bonds. These bonds are widely held in LAIF and OCIP. I have attached a report from LAIF for your review and will fax a copy of OCIP holdings (report too large for pdf)

LAIF.pdf (39 KB)

Lastly, depending on maturities, inventory, quantities and issuer, CD's can yield higher to agencies.

2. Federal Agencies vs. GSE's - I have attached a report that answers this question in detail.

government
gencies.pdf (552 K.

3. Fannie Mae/Freddie Mac current status - The federal government now owns most of Fannie and Freddie. Currently it is estimated that in 2013 they should be out of conservatorship, however the outcome is uncertain, no one really knows at this time what the Government will do. In regards to the debt (bonds) by these Agencies, they are still AAA rated with the implied backing from the U.S. Government.

4. Yield Curve - Is the yield curve getting upside down with 1 year bonds paying more than 2 & 3 year bonds? The yield curve is not inverted. The reason why there was a difference in yield vs. maturity on the last proposal, it had to do with the issuer and quantities in inventory. Freddie & Fannie are trading cheaper to the market than the federal gov't agency bonds Fed

Farm Credit & Fed Home Loan. For the current yield curve, please see page 5 of the attachment in question # 9.

5. Callable Features - Government Agencies and GSE's have the option to call some securities back from you before the maturity date. This call option typically increases the yield on these investments to compensate you for assuming call risk.

6. Increased GSE or Governmental Agency Yields over CD & Local Government pooled monies - Is it typical in our current investment climate that GSE's & Government Agencies out yield OCIP & LAIF? No, it is not typical, the difference mainly has to do with maturities in the portfolio. LAIF & OCIP need to keep very short (60-90 days) in maturities due to the liquidity need and cash flow. Based off today's yield curve, short maturities yield just above zero. Because you are able to ladder your investments we are able to capture yield and stay competitive to gov't pooled funds.

7. Six month maturity offsets in Fed Agencies/GSE portfolio maturities - Is that possible with Wells inventories without compromising yields? Yes it is possible, and I will email two proposals to show you the difference in a separate email.

8. Background of other agencies/GSE's in portfolio - Can you send latest description and analysis of these agencies so we can better understand what we are investing in? Yes, please read attachment from # 2. The attached brochure gives a full description of these agencies.

9. What other information should we be aware of? I have attached our latest Fixed Income Weekly Report. This report details our outlook on the fixed income market. You have been investing in Government Agencies through LAIF & OCIP, the only difference is that we are investing in longer maturities.

fixedincomeweekly.
pdf (55 KB)

10. What is Wells Fargo Research view for local governments? WFA does not specifically comment for local government agencies on how to invest their funds. We advise based on your investment policy and your risk tolerances within the policy.

1a

Bill Lockyer, State Treasurer

Inside the State Treasurer's Office

Local Agency Investment Fund (LAIF)

PMIA Performance Report

Date	Daily Yield*	Quarter to Date Yield	Average Maturity (in days)
5/6/2011	0.41	0.56	198
5/7/2011	0.41	0.55	198
5/8/2011	0.41	0.55	198
5/9/2011	0.41	0.55	197
5/10/2011	0.41	0.54	202
5/11/2011	0.41	0.54	202
5/12/2011	0.41	0.54	201
5/13/2011	0.42	0.54	202
5/14/2011	0.42	0.53	202
5/15/2011	0.42	0.53	202
5/16/2011	0.42	0.53	199
5/17/2011	0.42	0.53	199
5/18/2011	0.42	0.52	199
5/19/2011	0.41	0.52	197

*Daily yield does not reflect capital gains or losses

LAIF Performance Report

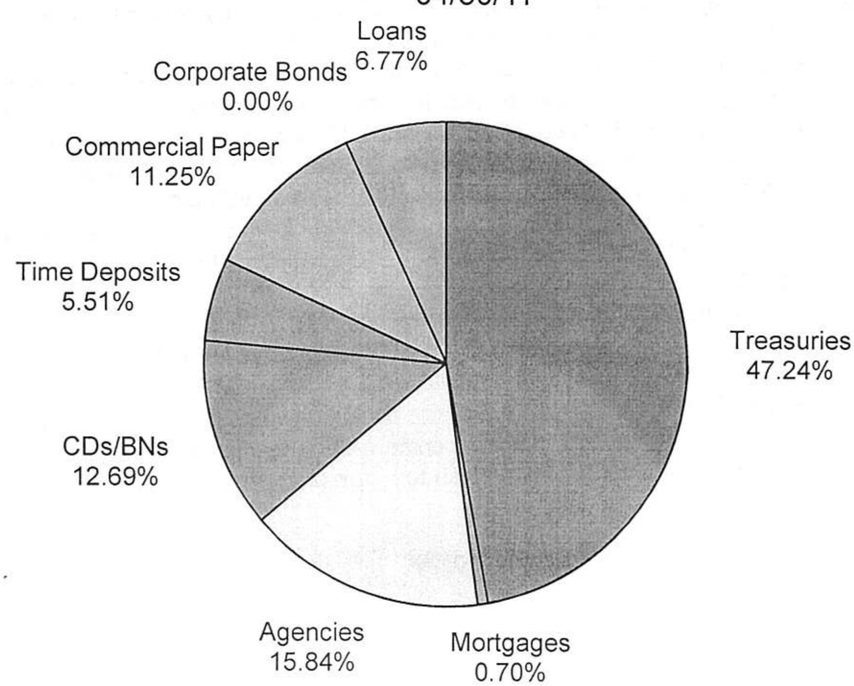
Quarter ending 03/31/2011

Apportionment Rate:	0.51%
Earnings Ratio:	.00001390282087521
Fair Value Factor:	1.001262155
Daily:	0.45%
Quarter To Date:	0.52%
Average Life:	193

PMIA Average Monthly Effective Yields

APR 2011	0.588%
MAR 2011	0.500%
FEB 2011	0.512%

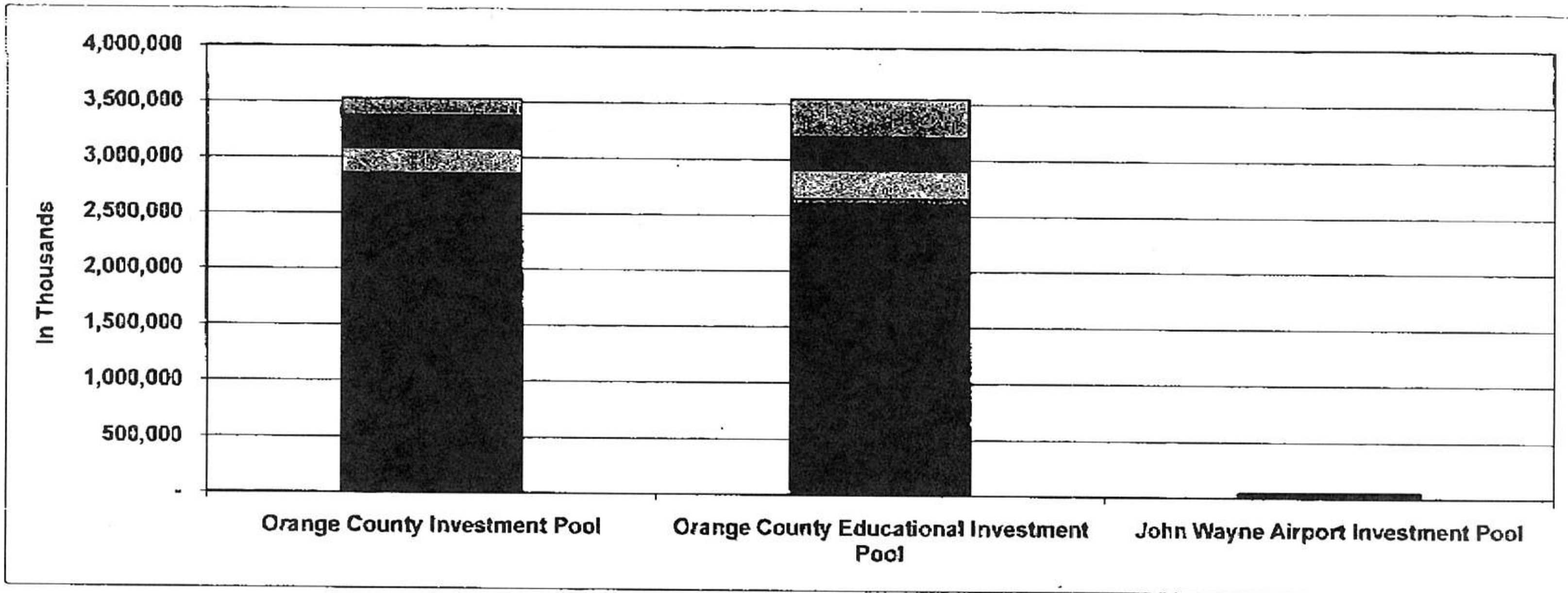
Pooled Money Investment Account
Portfolio Composition
$70 Billion
04/30/11



ORANGE COUNTY TREASURER - TAX COLLECTOR

BY INVESTMENT TYPE - By Dollar Amount

April 30, 2011



	Orange County Investment Pool	Orange County Educational Investment Pool	John Wayne Airport Investment Pool
		In Thousands	
CERTIFICATES OF DEPOSIT	$ 329,091	$ 320,481	$ 7,351
COMMERCIAL PAPER	163,861	220,216	4,800
U.S. GOVERNMENT AGENCIES	2,349,990	2,066,604	29,824
MONEY MARKET FUNDS	14,720	43,243	204
MEDIUM - TERM NOTES	225,653	254,243	3,059
MEDIUM - TERM NOTES - FDIC	75,270	89,904	1,018
MUNICIPAL DEBT	216,881	210,190	1,355
REPURCHASE AGREEMENT	894	3,192	-
U.S. TREASURIES	150,201	336,669	2,000
	$ 3,526,561	$ 3,544,742	$ 49,611

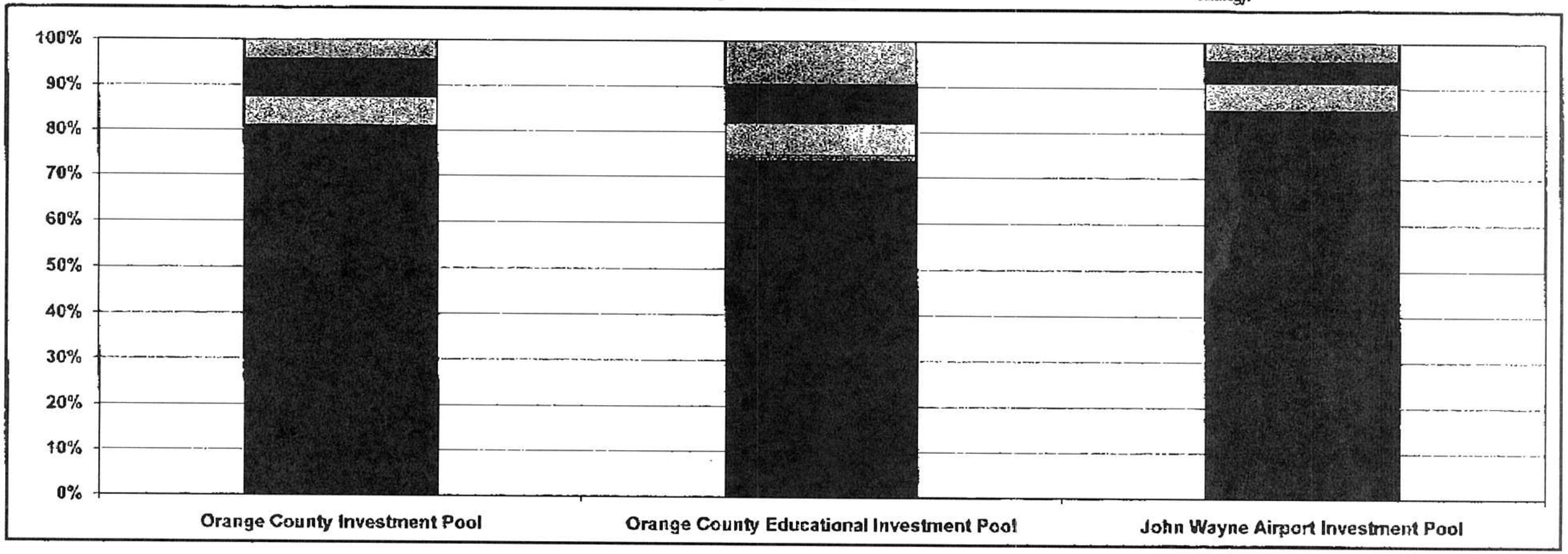
Investment Composition Is In Compliance With The Orange County Treasurer's Investment Policy Statement

Calculated Using Market Value at 04/30/2011

ORANGE COUNTY TREASURER - TAX COLLECTOR

BY INVESTMENT TYPE - By Percentage Holdings

April 30, 2011



Orange County Investment Pool

		In Thousands	%
CERTIFICATES OF DEPOSIT	$	329,091	9.33%
COMMERCIAL PAPER		163,861	4.65%
U.S. GOVERNMENT AGENCIES		2,349,990	66.64%
MONEY MARKET FUNDS		14,720	0.42%
MEDIUM - TERM NOTES		225,653	6.40%
MEDIUM - TERM NOTES - FDIC		75,270	2.13%
MUNICIPAL DEBT		216,881	6.15%
REPURCHASE AGREEMENT		894	0.02%
U.S. TREASURIES		150,201	4.26%
	$	3,526,561	100.00%

Orange County Educational Investment Pool

		In Thousands	%
CERTIFICATES OF DEPOSIT	$	320,481	9.04%
COMMERCIAL PAPER		220,216	6.21%
U.S. GOVERNMENT AGENCIES		2,066,604	58.30%
MONEY MARKET FUNDS		43,243	1.22%
MEDIUM - TERM NOTES		254,243	7.17%
MEDIUM - TERM NOTES - FDIC		89,904	2.54%
MUNICIPAL DEBT		210,190	5.93%
REPURCHASE AGREEMENT		3,192	0.09%
U.S. TREASURIES		336,669	9.50%
	$	3,544,742	100.00%

John Wayne Airport Investment Pool

		In Thousands	%
CERTIFICATES OF DEPOSIT	$	7,351	14.82%
COMMERCIAL PAPER		4,800	9.67%
U.S. GOVERNMENT AGENCIES		29,824	60.12%
MONEY MARKET FUNDS		204	0.41%
MEDIUM - TERM NOTES		3,059	6.17%
MEDIUM - TERM NOTES - FDIC		1,018	2.05%
MUNICIPAL DEBT		1,355	2.73%
REPURCHASE AGREEMENT		-	0.00%
U.S. TREASURIES		2,000	4.03%
	$	49,611	100.00%

Investment Composition Is In Compliance With The Orange County Treasurer's Investment Policy Statement
County Investment Pool Includes: Money Market Fund & Extended Fund
Calculated Using Market Value at 04/30/2011

2

WELLS FARGO ADVISORS

U.S. government and agency securities

Secure investments for your income portfolio

Types of U.S. government and agency securities

The U.S. government offers investors the following fixed-income investments:

- Treasury securities: T-bills, Treasury notes and Treasury bonds
- Treasury inflation protected securities
- Government Trust Certificates
- U.S. Treasury zero-coupon bonds
- U.S. government agency and government-sponsored enterprise securities

If you're looking for high credit quality, predictable income, liquidity and potential tax advantages, you may want to consider investing in securities issued by the U.S. Treasury, U.S. government agencies and government-sponsored enterprises. Bonds from these issuers are available in a wide selection of maturities, structures and yields.

Potential benefits of owning U.S. Treasury and agency securities

Safety. U.S. Treasury, agency and government-sponsored enterprise (GSE) securities are considered among the highest-quality investments available. Of course, all fixed-income investments are subject to price volatility as the interest rate environment changes.

Treasury securities are backed by the full faith and credit of the U.S. federal government. The U.S. government guarantees the principal and interest of Treasury securities, giving these securities the highest credit quality available in the fixed-income markets today.

The federal government established the agencies and government-sponsored enterprises, and collectively their securities represent a generally large and liquid market.

Liquidity. The secondary market for U.S. government securities is active, providing you the ability to buy or sell them at virtually any time. Of course, as with any investment, the price of government and agency bonds will fluctuate depending on current interest rates and market conditions.

State tax exemption. Interest income from Treasury securities is free from state and local taxes but subject to federal income tax. The interest from certain agency and government-sponsored enterprise issues is also free from state, and often local taxes.

Diversification. Government and agency securities often form the foundation of conservative income-oriented portfolios and can provide a greater degree of diversification to your more aggressive holdings. High-quality bonds, such as U.S. Treasuries and agencies, have historically helped reduce volatility in portfolios composed primarily of stocks.

Wide selection of yields and maturities, plus predictable income. Government securities are available in maturities ranging from four weeks to 30 years, making them attractive whether you are investing short- or long-term. In addition, government and agency bonds provide you with predictable interest income. Many bonds from agencies, however, include optional calls that let the issuer retire bonds prior to maturity, exposing you to reinvestment risk.

U.S. Treasury securities

The U.S. Treasury issues a variety of securities to generate general operating funds for the government, fund federal projects and help finance the federal deficit in times of budgetary shortfalls.

Treasury securities offer the highest degree of safety available in the fixed-income market because their interest and principal are guaranteed by the U.S. government. (However, this backing does not ensure that these securities will not fluctuate in market value.)

Three types of Treasury securities

Treasury securities trade in three forms: bills, notes and bonds. Interest earned on Treasuries is free from state and local taxes but is subject to federal income tax. Although all three types of Treasury securities trade actively on the over-the-counter market in large volumes, each of these investments differs with regard to yield, maturity and the way they pay interest.

Treasury bills (T-bills) are short-term government securities issued with maturities of four weeks to one year. The government sells T-bills at a discount from their face value.

With T-bills, you do not receive any interest payments. However, at maturity you receive the face value of the bill, with the difference between your purchase price and the face value representing how much interest you've earned on your investment. The minimum face value of a T-bill is $1,000 with $1,000 increments thereafter.

Because T-bills offer the shortest maturity available on a government security, there is less risk that your money will be locked into a lower, less desirable yield should interest rates rise. T-bills may be appropriate for you if you have a short-term investment horizon and want the security of a government-guaranteed investment (if held to maturity).

Treasury notes are issued with maturities of two to 10 years. They pay a fixed rate of semiannual interest, and at maturity you receive the face amount. Most are noncallable, meaning the issuer cannot redeem your securities before their stated maturities. You can purchase Treasury notes in amounts of $1,000.

Yields on Treasury notes are generally higher than Treasury bills but lower than Treasury bonds. Treasury notes may be suitable for you if you're looking for semiannual income and have an intermediate- to long-term investment time horizon.

Treasury bonds are long-term government securities with maturities extending beyond 10 years. Like Treasury notes, these securities pay a fixed rate of semiannual interest, and you receive the face amount of the bond at maturity.

The U.S. Department of the Treasury announced in October 2001 that — after four years of rising budget surpluses — it would suspend issuing 30-year bonds. In August 2005, however, the U.S. Department of the Treasury announced the reintroduction of the 30-year bond and once again began auctioning these bonds in February 2006. As of this writing, the longest outstanding bond will mature in February 2040. Bonds are available in $1,000 noncallable denominations.

Because Treasury bonds are long-term investments, their yields are generally higher than the yields of Treasury bills or notes. Treasury bonds may be appropriate for you if you're seeking dependable income and have a long-term investment time horizon.

Treasury inflation protected securities (TIPS)

Treasury inflation protected securities (TIPS) were introduced in 1997 to help the government lower its borrowing costs. Like other Treasuries, TIPS are backed by the full faith and credit of the U.S. government and are issued in various maturities. Unlike normal bonds, which are subject to the risk that inflation will erode the value of their fixed-income payments over time, TIPS' principal value (and, as a result, the income paid) adjusts over time to reflect changes in consumer prices. These periodic adjustments offer the potential for TIPS to increase in principal value and, as a result, increase their income payments.

TIPS are bought and sold regularly in the secondary market and are offered in increments of $1,000. Because the securities are backed by the U.S. government, an active secondary market has developed; however, these securities are sometimes less liquid than normal Treasuries because there are fewer available. TIPS are not trading vehicles.

TIPS are one way you can try to lessen the ill effects of inflation on your portfolio. Because of their tax treatment (principal inflation adjustments and interest payments are taxable in the year they occur) and their lower liquidity, TIPS may be better suited to investors who want to buy and hold them until maturity, particularly in qualified accounts, such as tax-deferred retirement accounts, (e.g., 401(k) plans or IRAs).

Before investing in TIPS, you should also consider the possibility that normal Treasuries might outperform TIPS if inflation proves to be lower than expected. Although inflation has been low during the past few years, there is no assurance that it will remain low. In addition, a rise in bond yields will likely drive TIPS' market values lower, as bond prices and yields move in opposite directions.

How Treasuries are sold: the auction process

As older securities mature, the U.S. Treasury Department periodically holds auctions to sell new bills, notes and bonds directly to a collective group of institutions that are considered the Treasury's primary dealers. These dealers submit competing bids for the securities.

Although we are not a primary dealer, Wells Fargo Advisors participates in the auction process to offer you an excellent selection of Treasury securities. For help determining whether U.S. Treasury securities would be a good addition to your investment portfolio, talk with your Financial Advisor.

Taxation of interest

The interest that accretes within a Treasury zero is subject to federal income tax but free from state and local taxes. For tax purposes, the IRS considers this interest taxable income in the year it is actually accrued. This means you will pay taxes on the interest produced by a zero before you actually receive it.

U.S. Treasury zero-coupon bonds

If you don't need current income but are looking for an investment with high credit quality and greater total return potential, you may find Treasury zero-coupon bonds (also called STRIPS* or zeros) attractive. Although the Treasury doesn't issue or sell zeros directly, these securities are still obligations of the Treasury and are backed by the full faith and credit of the U.S. government.

Created from Treasury notes and bonds, zeros pay no current interest. Instead, you purchase them at a discounted price considerably less than their face value. At maturity, you receive their face value. For example, you might invest $5,000 today to purchase a zero with a $15,000 face value. When the zero matures, you would receive the $15,000 face value, which includes your principal and all the accrued interest.

This acronym stands for separate trading of registered interest and principal securities.

A zero offers many benefits, including:

- A compounded, fixed rate of return. With a zero coupon bond, you do not receive periodic interest payments; instead, you receive all the interest you've earned at maturity. Because your interest accretes at the same rate you secured at the time of purchase, you don't have to worry about reinvesting your income payments at interest rates that may be lower than the original rate. If you sell your zero-coupon bond prior to maturity, it may be worth more or less than its original accretion rate would suggest.
- A known future value. Because you receive the face value of the investment at maturity, a zero gives you the security of knowing your investment's maturity value.
- A small initial investment. Because a zero is sold at a deep discount from its face value, it offers you an investment alternative that doesn't require a large amount of money. You can buy a long-term zero for as little as 15% to 20% of its face value depending on current market conditions. (The minimum face value is $1,000.)

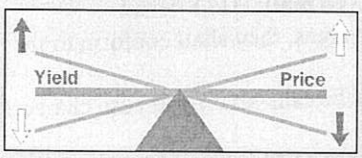
The effect of interest rates

Like all fixed-income investments, a zero's price moves in the opposite direction of interest rates. As interest rates increase, the value of a zero will decrease and vice versa. However, because the income payment from a zero is deferred until maturity, its market price is more volatile than that of a traditional interest-paying bond. Specifically, zero prices can appreciate more quickly than more traditional bonds when rates decline and decrease at a faster rate when interest rates rise.

As a result, if you invest in zeros, you must be willing to accept potentially larger losses in a rising interest rate environment if you should decide to sell your bonds before maturity. Of course, you can always hold your zeros until maturity and receive the full face value.

Yield/price relationship

The yield/price teeter-totter model is a simple way to visualize the relationship between yield and price. As yields rise, prices fall and vice versa.



U.S. government agency and government-sponsored enterprise (GSE) securities

The term "agency" is used very broadly and can actually refer to the bonds of one of two distinct types of issuers:

- Actual U.S. agencies. Bonds issued by agencies are supported by the full faith and credit of the U.S. government. Issuers include the Government National Mortgage Association (GNMA), the Federal Housing Administration (FHA) and the Financing Corporation (FICO). Most bonds issued by agencies are in the form of mortgage-backed pass-through securities or collateralized mortgage obligations.

- Government-sponsored enterprises. These enterprises were created by an act of Congress and include the Federal Home Loan Banks, Freddie Mac, Fannie Mae, Federal Farm Credit Banks and Tennessee Valley Authority.

Agency and GSE securities usually offer higher yields than Treasury securities because most of these investments do not carry the full faith and credit guarantee that Treasury securities offer. Furthermore, unlike most Treasury securities, the agencies and government-sponsored enterprises have the option to call some securities back from you before the securities' original maturity date. This call option typically increases the yield on these investments to compensate you for assuming call risk.

Government agencies and government-sponsored enterprises are exempt from the Securities and Exchange Act, which means their securities are not registered.

Issuing agencies and government-sponsored enterprises

Wells Fargo Advisors sells securities issued by a variety of government agencies and government-sponsored enterprises. Many of these entities issue a variety of securities with maturities ranging from overnight to 30 years. Yields and interest payment periods also vary depending on the specific security.

Federal Home Loan Banks (FHLB). FHLB is a system of 12 regional banks created in 1932 under the Federal Home Loan Bank Act as a credit reserve system for thrifts and savings associations. These banks issue securities to raise money needed to lend to member thrifts. The securities are backed by FHLB's financial strength — not the full faith and credit of the U.S. government. FHLB securities generally require a minimum purchase of 10 bonds ($10,000 face value) and denominations of five bonds ($5,000 face value) thereafter. The interest earned is free from state income taxes and sometimes free from local taxes but subject to federal income tax.

Federal Home Loan Mortgage Corporation (FHLMC). FHLMC, or "Freddie Mac," is a publicly owned corporation created in 1970 through an act of Congress. Freddie Mac provides liquidity in the secondary market for residential mortgages by purchasing mortgages and packaging them into securities.

As a government-sponsored enterprise, Freddie Mac does not carry the full faith and credit guarantee of the U.S. government. Freddie Mac securities generally require a minimum investment of $1,000 and are available in denominations of $1,000. The interest you earn on these securities is fully taxable.

Federal National Mortgage Association (FNMA). FNMA, or "Fannie Mae," is the nation's largest purchaser of home mortgage loans and is a direct competitor of Freddie Mac. Created in 1938, Fannie Mae was wholly owned by the U.S. government until 1970, when it became a publicly owned corporation. The securities issued by Fannie Mae are not backed by the full faith and credit of the U.S. government.

Fannie Mae securities generally require a minimum investment of $1,000 and are available in denominations of $1,000 thereafter. The interest they generate is fully taxable.

Federal Farm Credit Banks (FFCB). Congress created the U.S. Farm Credit System in 1916 to make funds available to financial institutions that provide loans and related services to farmers. The Farm Credit System has 37 Federal Farm Credit Banks (FFCB). FFCB securities are not guaranteed by the federal government.

FFCB securities vary with regard to minimum investment amounts, denominations, maturity and callability. The interest they generate is subject to federal tax but free from state and local taxes.

Tennessee Valley Authority (TVA). The Tennessee Valley Authority (TVA) is a corporation owned by the federal government. Congress formed the TVA in 1933 to develop the agricultural and industrial resources of the Tennessee River Valley. TVA uses the proceeds from its bonds to finance utility power generation for this region. The federal government does not guarantee these bonds.

TVA bonds are issued in denominations of $1,000. The interest on these obligations is free from state and local taxes but subject to federal income tax.

The Financing Corporation (FICO). The Financing Corporation was launched in 1987 under a charter of the Federal Home Loan Bank Board to bail out the Federal Savings & Loan Insurance Corporation (FSLIC). However, as a result of new thrift legislation passed in 1989, the Federal Housing Finance Board now oversees this government-sponsored enterprise.

Most of the Financing Corporation securities available today are in the form of zero-coupon bonds. You can purchase these securities in denominations of $1,000. The interest on these investments is free from state and local taxes but subject to federal income tax.*

Resolution Funding Corporation (REFCORP). In 1989 Congress created REFCORP to fund the Resolution Trust Corporation's efforts to dispose of assets of failed thrifts after 1988. The 12 Federal Home Loan Banks own REFCORP's stock.

Although REFCORP does not carry the full faith and credit guarantee of the federal government, it is considered to have the support of Congress, and the federal government guarantees REFCORP's interest payments. In addition, government zero-coupon bonds with the same maturity dates secure REFCORP's debt securities. The interest they produce is free from state and local taxes but subject to federal income tax.

Private Export Funding Corporation (PEFCO). PEFCO is a corporation owned by most major U.S. banks and six industrial exporting companies and financial service institutions. PEFCO was created in 1970 with the support of the Treasury Department and Ex-Im Bank, a federal agency that aids in financing exports and imports between the United States and foreign countries. PEFCO facilitates the funding of foreign importers and exporters who purchase U.S. goods and services. Its securities carry the full faith and credit guarantee of the federal government. The interest PEFCO securities generate is fully taxable.

** Financing Corporation zeros are state- and local-tax-free. State governments determine the taxability of all other zero issues.*

Investing in government securities through Wells Fargo Advisors

As you can see, government securities offer a variety of benefits, including predictable income, liquidity and potential tax advantages

Ask your Financial Advisor for more information on any of the investments highlighted in this brochure. He or she can help you identify your investment objectives and determine whether any of these investments would make a suitable addition to your fixed-income portfolio.

How new agency and GSE issues are sold

The Treasury does not sell new agency and government-sponsored securities directly to investors. Similar to corporate bonds, a syndicate of dealers distributes these securities and makes a secondary market for them.

WELLS FARGO ADVISORS

Fixed Income Investment Portfolio

Prepared By: SANDRA WHEELER

Wells Fargo Advisors

05/25/2011

VP Ladder

Together we'll go far

Wells Fargo Advisors Laddered Portfolio
Wednesday, May 25, 2011

Qty (000)	Cusip	Rating / FDIC #	Issue	Sec Type	Coupon	Maturity	Price	Yield to Worst	Yield to Maturity	Accrued Interest	Principal	Net Amount
100	3136FPAF4	Aaa/AAA	FNMA-FED NATL MTG ASSN Callable 08/11@100	Agency	0.800%	11/23/2012	$100.048	0.603% (c)	0.768%	$6.67	$100,047.58	$100,054.25
100	313373YD8	Aaa/AAA	FHLB-FED HOME LOAN BANK Callable 12/11@100	Agency	1.000%	12/16/2013	$100.000	1.000%	1.000%	$0.00	$100,000.00	$100,000.00
100	3134G2HP0	Aaa/AAA	FHLMC-FED HOME LOAN MTG C Callable 12/11@100	Agency	1.300%	06/02/2014	$100.100	1.099% (c)	1.266%	$0.00	$100,100.00	$100,100.00
100	313373ZQ8	Aaa/AAA	FHLB-FED HOME LOAN BANK Callable 09/11@100	Agency	2.050%	12/16/2015	$100.000	2.050%	2.050%	$0.00	$100,000.00	$100,000.00
100	3136FPCA3	Aaa/AAA	FNMA-FED NATL MTG ASSN Callable 08/11@100	Agency	2.000%	02/25/2016	$99.432	2.126%	2.126%	$505.56	$99,431.74	$99,937.30
			Weighted Averages and Totals		**1.430%** **Avg Coupon**	**3.28** **Avg Yrs Maturity**	**$99.916** **Avg Price**	**1.376%** **Avg Yield to Worst**	**1.442%** **Avg Yield to Maturity**	**$512.23** **Total Accrued Interest**	**$499,579.32** **Total Principal**	**$500,091.55** **Total Investment**

(n) Floating/Variable Rate - (c) Yield to Call - (p) Yield to Par Call - (w) Yield to Middle Call - (u) Yield to Put - (dis) Discount Yield - (r) Pre-Refund - (t) Mandatory Put - (f) Called in Full - (mmy) Money Market Yield

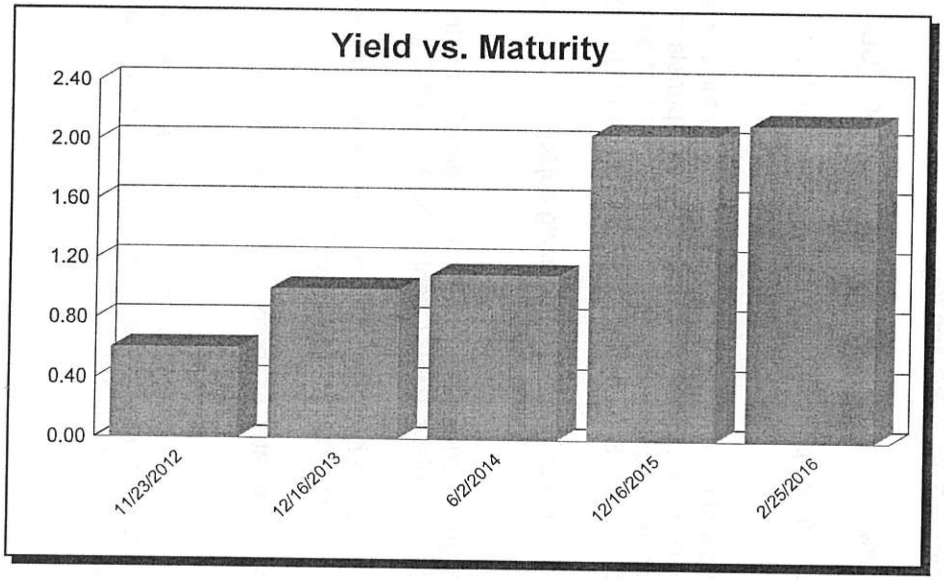
Estimated Monthly Coupon Payments	Jun/11	Jul/11	Aug/11	Sep/11	Oct/11	Nov/11	Dec/11	Jan/12	Feb/12	Mar/12	Apr/12	May/12	First Year
FEDERAL NATL MORTGAGE ASSN						400						400	$800
FEDERAL HOME LN BK - FHLB							500						$500
FEDERAL HOME LOAN MORTGAGE CO							650						$650
FEDERAL HOME LN BK - FHLB							1,025						$1,025
FEDERAL NATL MTG ASSN - FNMA			1,000						1,000				$2,000
Total Monthly Coupon Payments	**$0**	**$0**	**$1,000**	**$0**	**$0**	**$400**	**$2,175**	**$0**	**$1,000**	**$0**	**$0**	**$400**	**$4,975**

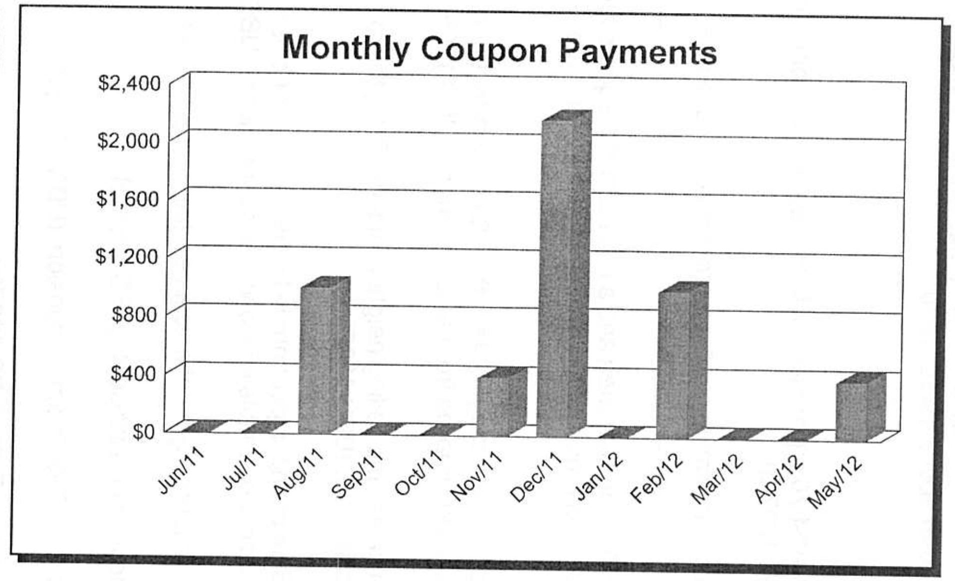
Estimated monthly coupon payments are based on the stated terms of the bond. The interest payments shown are based on the paying ability of the issuer and are not guaranteed.

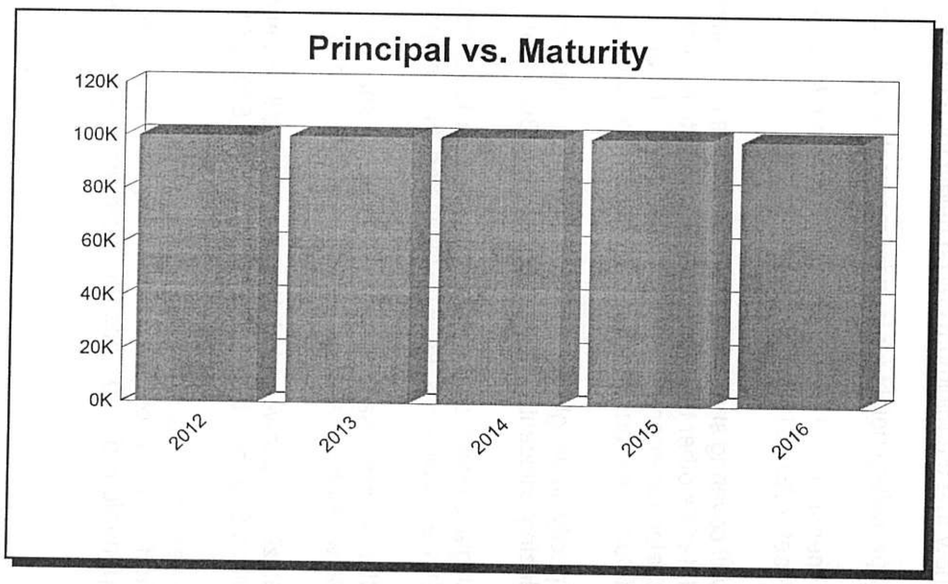
Ladder Summary

Total Principal	$499,579.32	Average Coupon	1.430%
Total Accrued Interest	$512.23	Average Maturity	3.28 yr(s)
Total Investment	$500,091.55	Average Price	$99.916
First Year Income	$4,975.00	Average Yield to Worst	1.376%
Maturity Value	$500,000.00	Average Yield to Maturity	1.442%
		Annualized Current Yield	1.431%
		Average Duration	2.41

Wells Fargo Advisors Laddered Portfolio
Wednesday, May 25, 2011







DISCLOSURE

Prices and yields are as of **5/25/2011 16:41:14 ET** and subject to change, based on market conditions and availability.

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- Discount Bonds may be subject to capital gains taxes. Wells Fargo Advisors, LLC is not a tax or legal advisor.
- Conditional Calls or Puts. There are specific requirements related to these features. Please see the bond indenture or offering document for a complete description of restrictions and limitations for these features.
- All yields and market value will fluctuate, so that your investment, if sold prior to maturity, may be worth more or less than its original cost.
- The market value of zero coupon bonds fluctuates more to changes in market conditions than regular coupon bonds and, therefore, may not be suitable for all investors. These bonds may be subject to "phantom income tax" please consult with your tax advisor.

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Treasury - There is no guarantee as to the market value of these securities if they are sold prior to maturity or redemption.
Agency - There is no guarantee as to the market value of these securities if they are sold prior to maturity or redemption. Agency Terms: Freddie Mac is Federal Home Loan Mortgage Corp. Fannie Mae is Federal National Mortgage Association. Sallie Mae is Student Loan Marketing Association.
Corporate Bonds - High-yield bonds, commonly known as junk bonds, are subject to greater risk of loss of principal and interest, including default risk, than higher-rated bonds. Therefore, their prices may be more volatile. Insurance pertains to the timely payment of principal (at maturity) and interest by the issuer of the underlying securities and not to the price of the bond, which will fluctuate prior to maturity. For insured bonds the guarantees are backed by the paying ability of the listed insurance company.
Municipal Bonds - Municipal bonds may be investment grade (Aaa/AAA - Baa/BBB) or high yield (Ba/BB - C). High yield bonds are subject to greater risk of loss of principal and interest, including default risk, than higher rated bonds. Income may be subject to state and/or local income taxes and/or the alternative minimum tax (AMT). Municipal Securities subject to AMT assume a "non taxable" status for yield calculations. Certain municipal bonds income may be subject to federal income tax. Those bonds are identified as "taxable". Gains on sales/redemptions of municipal bond may be taxed as capital gains. If the bonds are insured, the insurance pertains to the timely payment of principal (at maturity) and interest by the insurer of the underlying securities and not to the price of the bond, which will fluctuate prior to maturity. The guarantees are backed by the paying ability of the listed insurance company.
Certificates of Deposit - The standard maximum FDIC deposit insurance is $250,000 per depositor, per insured depository institution for each account ownership category. FDIC insurance does not apply for any loss of principal due to market fluctuations and does not cover any premium paid over the face value of the CD. CDs with step-down and/or call provisions may be less favorable than traditional CDs without these features. The terms of callable CDs are generally longer than the typical CD. Investors should be prepared to hold CDs until maturity or until it is called at the prevailing interest rate, which could be in a lower interest rate environment. As a trade-off for the competitive yields offered by Callable CDs, investors must be able to accept the risk of their CDs being called prior to maturity. This means the investor may have to reinvest principal at a lower interest rate. As with traditional CDs, holders wishing to sell their CD step-ups before maturity will be subject to market risk. Liquidity in the secondary market can be limited.
Medium Term Notes - Medium Term Notes are sold only by the prospectus or offering circular of the individual issuer. An investor should read the prospectus or offering circular carefully before investing or sending money. This is neither an offer to sell nor the solicitation of an offer to buy any financial instruments. There can be no assurance that a trading market will ever develop or be maintained. Medium Term Notes are the unsecured debt of each respective issuer, subject to both market and credit risk.

Wells Fargo Advisors, LLC (WFA) is the provider of brokerage services and is not affiliated with BondDesk Trading LLC. While WFA has provided access to the BondDesk Alternative Trading System and believe the information provided through BondDesk to be accurate, they assume no responsibility for inaccurate information. This communication does not constitute an offer to sell or a solicitation of an offer to buy these securities. Offerings of New Issues may be made only by the official statement for the bonds. Fixed income securities are subject to market risk and if sold prior to maturity, proceeds may be more or less than the initial investment. Some securities offered through the BondDesk may not be suitable for all investors.

Wells Fargo Advisors is the trade name used by two separate registered broker-dealers: Wells Fargo Advisors, LLC or Wells Fargo Advisors Financial Network, LLC, Members SIPC. Each broker-dealer is a separate non-bank affiliate of Wells Fargo & Company.

SECURITIES AND INSURANCE PRODUCTS
ARE NOT FDIC INSURED ARE NOT BANK GUARANTEED MAY LOSE VALUE

WELLS FARGO | ADVISORS

Fixed Income Investment Portfolio

Prepared By: Sandra Wheeler

Email: sandra.wheeler@wellsfargoadvisors.com
Wells Fargo Advisors

05/25/2011

Wheeler Ladder

Together we'll go far

Wells Fargo Advisors Laddered Portfolio
Wednesday, May 25, 2011

Qty (000)	Cusip	Rating / FDIC #	Issue	Sec Type	Coupon	Maturity	Price	Yield to Worst	Yield to Maturity	Accrued Interest	Principal	Net Amount
100	3134A4JT2	Aaa/AAA	FHLMC-FED HOME LOAN MTG C	Agency	5.750%	01/15/2012	$103.546	0.169%	0.169%	$2,092.36	$103,546.38	$105,638.74
100	313372LE2	Aaa/AAA	FHLB-FED HOME LOAN BANK Callable 08/11@100	Agency	0.800%	02/25/2013	$100.100	0.394% (c)	0.742%	$202.22	$100,100.00	$100,302.22
100	31331KLP3	Aaa/AAA	FFCB-FED FARM CREDIT BANK Callable 06/12@100	Agency	1.180%	06/06/2014	$100.000	1.180%	1.180%	$0.00	$100,000.00	$100,000.00
100	31398A4M1	Aaa/AAA	FEDERAL NATL MTG ASSN	Agency	1.625%	10/26/2015	$100.271	1.561%	1.561%	$135.42	$100,270.94	$100,406.36
100	3135G0BA0	Aaa/AAA	FEDERAL NATL MTG ASSN	Agency	2.375%	04/11/2016	$102.721	1.790%	1.790%	$296.88	$102,720.64	$103,017.52
			Weighted Averages and Totals		**2.346%** Avg Coupon	**2.95** Avg Yrs Maturity	**$101.328** Avg Price	**1.019%** Avg Yield to Worst	**1.088%** Avg Yield to Maturity	**$2,726.88** Total Accrued Interest	**$506,637.95** Total Principal	**$509,364.83** Total Investment

(n) Floating/Variable Rate - (c) Yield to Call - (p) Yield to Par Call - (w) Yield to Middle Call - (u) Yield to Put - (dis) Discount Yield - (r) Pre-Refund - (t) Mandatory Put - (f) Called in Full - (mmy) Money Market Yield

Estimated Monthly Coupon Payments	Jun/11	Jul/11	Aug/11	Sep/11	Oct/11	Nov/11	Dec/11	Jan/12	Feb/12	Mar/12	Apr/12	May/12	First Year
FEDERAL HOME LN MTG CORP		2,875						2,875					$5,750
FEDERAL HOME LOAN BANK			400						400				$800
FEDERAL FARM CREDIT BANK							590						$590
FEDERAL NATL MTG ASSN					813						813		$1,625
FEDERAL NATL MTG ASSN					1,188						1,188		$2,375
Total Monthly Coupon Payments	**$0**	**$2,875**	**$400**	**$0**	**$2,000**	**$0**	**$590**	**$2,875**	**$400**	**$0**	**$2,000**	**$0**	**$11,140**

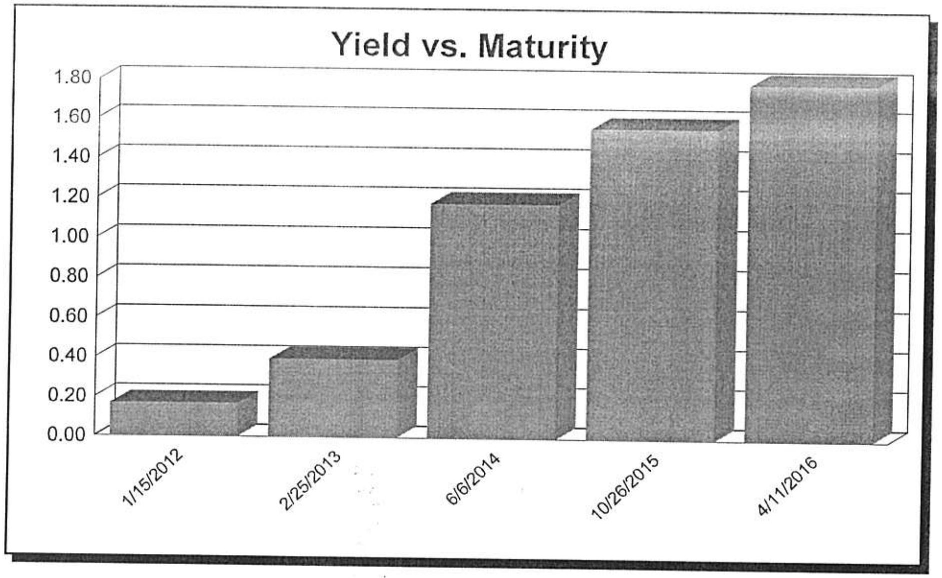
Estimated monthly coupon payments are based on the stated terms of the bond. The interest payments shown are based on the paying ability of the issuer and are not guaranteed.

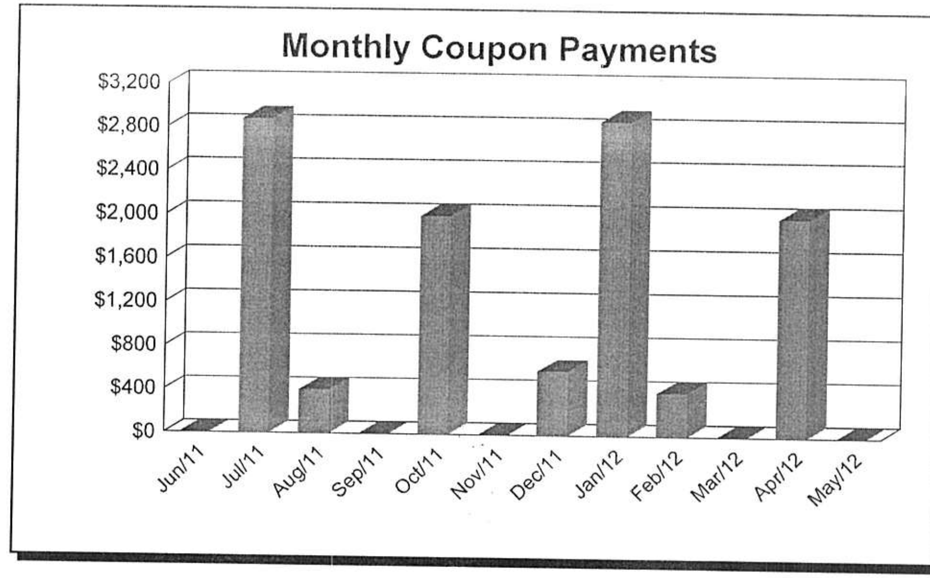
Ladder Summary

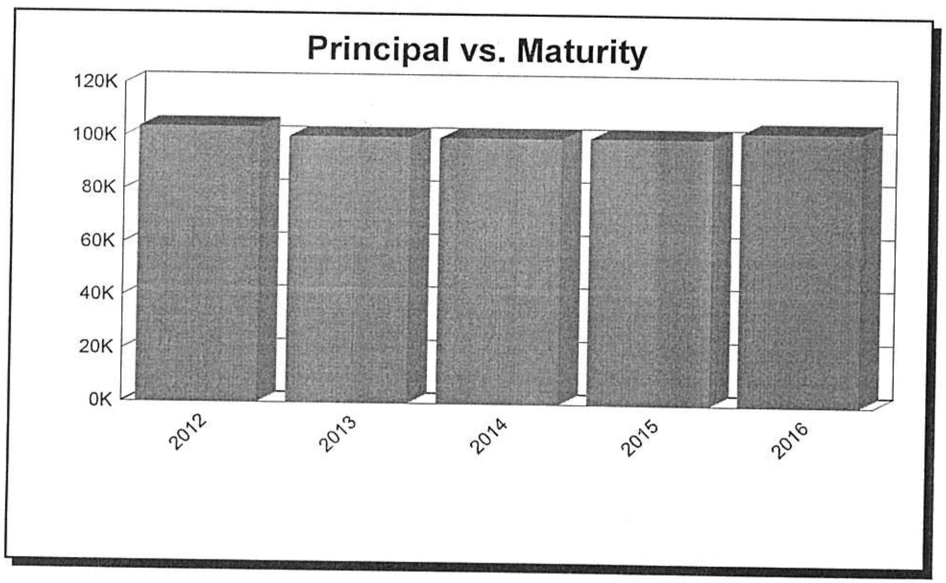
Total Principal	$506,637.95	Average Coupon	2.346%
Total Accrued Interest	$2,726.88	Average Maturity	2.95 yr(s)
Total Investment	$509,364.83	Average Price	$101.328
First Year Income	$11,140.00	Average Yield to Worst	1.019%
Maturity Value	$500,000.00	Average Yield to Maturity	1.088%
		Annualized Current Yield	2.315%
		Average Duration	2.54

Report is not complete without the attached DISCLOSURE .

Wells Fargo Advisors Laddered Portfolio
Wednesday, May 25, 2011







Wells Fargo Advisors Laddered Portfolio
Wednesday, May 25, 2011

DISCLOSURE

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ARE NOT FDIC INSURED   ARE NOT BANK GUARANTEED   MAY LOSE VALUE

May 24, 2011

WELLS FARGO ADVISORS

Fixed Income Weekly

Pat McCluskey, Senior Fixed Income Strategist

The Treasury as the instrument of choice in a flight-to-safety

Over the past several weeks, the 10-year Treasury has rallied in price owing to investor concerns over the European debt situation and a perceived slow-down in U.S. economic growth. As the safe-haven instrument of choice for many different kinds of investors, we view the recent strength in the Treasury as more of a short-term phenomenon. We believe that the secular low in rates was put in place in late 2008 and we expect rates to continue to trend higher over the long-term. In our view, U.S. economic growth, inflation expectations and U.S. debt issues are likely to do more to influence our long-term outlook on interest rates than any other single factor.

Over the last several years, fixed-income investors have experienced a number of truly unusual events; the impacts of which have been reflected in U.S. Treasury yields. The chart below depicts the yield history of the 10-year constant U.S. Treasury from its inception in the 1960s through the close of the market on May 20, 2011.

Past performance is not a guarantee of future results.

At the height of the financial crisis in 2008, for example, the constant 10-year Treasury set a record low yield of 2.08% on December 18, 2008. At the height of the economic recovery that followed, and as a consequence of the massive amounts of government stimulus that fostered that recovery, the 10-year Treasury set a post-recession high yield of 4.00% on April 1, 2010. Since that time, however, several new elements have come to light which, collectively, have seen investors seek the safety of the U.S. Treasury, at least temporarily. These events include a perceived weakening of U.S. economic growth (due in part to higher commodities prices) and increasing concerns over the European sovereign debt situation. In our view, however, these events are likely to be transitory events—more short-term in nature—not events that are likely to change our longer-term outlook regarding longer-term interest rates.

Generally speaking, economic data for the month of April was somewhat weaker than expected. For example, after a significant upward revision in March, housing starts fell 10.6% to an annual rate of 523,000. The sale of existing single-family homes also fell in April, down 0.8% to an annual rate of 5.05 million units. The Conference Board's leading economic index also fell 0.3% in April. This was the first time since June 2010 that there has been a decline in the index of leading economic indicators. Nevertheless, economists at Standard & Poor's (S&P) believe that upward revisions will likely push real economic growth for the first quarter of 2011 back above the 2% level, offering perhaps some modest solace to what is a weak start to the second half of the year. Positively, some of the supply constraints that were evident during the second quarter of 2011 (because of the Japan earthquake) have abated. As a result, the Advisory Services Group continues to believe that U.S. economic growth will still average 3% for 2011 as a whole.

In Europe, investors have been nervous over many issues, including the risk of a sovereign default and the increasing risk that in future bank failures, bondholders might have to provide their support before a particular government would be required to provide its support. In June, for example, the Financial Stability Board (FSA) is expected to propose new capital regulations for systemically important banks in the UK. Separately, the European Commission (EC) will propose legislation on how to deal with bank failures. There has been speculation that the EC will also require senior bondholders to support failing banks, should the need arise. Finally, at the end of June, the European Banking Authority is expected to publish the stress test results for 90 some European banks. Although the test results are expected to be more rigorous than the previous stress test, this test will not stress for the risk of an actual default by a sovereign nation, only for market-related volatility of its outstanding bonds. Nevertheless, many individual investors appear to be preparing for the risk of a default by a sovereign nation.

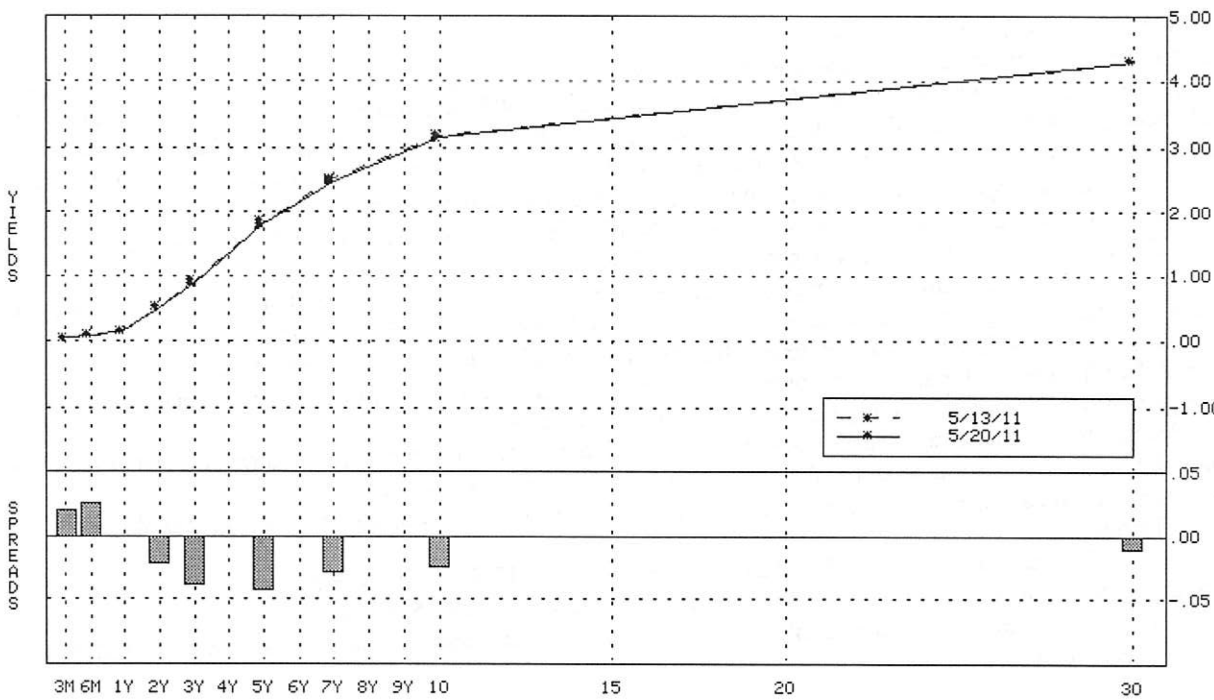
On May 9, 2011, Standard & Poor's Ratings Services (S&P) lowered its long-term sovereign credit ratings on the Hellenic Republic of Greece (Greece) by two notches, to 'B' from 'BB-" and left the rating on CreditWatch Negative. The downgrade was designed to reflect S&P's view of increasing sentiment among Greece's key euro zone official creditors to extend the debt payment maturities of their €80 billion ($112.46 billion) of bilateral loans pooled by the European Commission. Since S&P believes that an extension of the bilateral debt might also require a burden sharing by private sector creditors, such a restructuring would likely constitute a "distressed debt exchange" and therefore, a selective default. S&P said that even if there were no discount on debt principal required in the restructuring, it would still consider the restructuring as a distressed exchange. Ultimately, the borrower is asking the creditors to agree to terms for repayment that were not part of the original lending agreement. S&P assigned a recovery rating of "4" (average) on the Greek debt. This implies that, in S&P's opinion, bondholders might only recover 30% to 50% of bond principal in a payments default.

Although the actual amount of Greek debt is rather small, and appears to be fairly contained among just a few large Greek and other international banks, the risk of an actual Greek default is greater than its direct credit exposure, according to Moody's Investors Services (Moody's). In Moody's view, a Greek default has the potential to undermine the capital markets and restrict the weaker banks access to capital. Ultimately, the various governments might have to provide direct liquidity to the banking system under such a default scenario. Ultimately, we believe that the Europeans will do whatever is necessary to stabilize their banking sector and that such actions might serve to place downward pressure on interest rates in Europe. But with economic growth in the U.S. poised to expand during the remainder of 2011, we continue to believe that U.S. interest rates will be headed higher. At present, we continue to believe that the 10-year Treasury will continue to trade in a range of between 3.00% and 4.00% for 2011 and that by year-end 2011, the yield on the Treasury will be 3.5%.

How should fixed-income investors invest in the current environment?

With our long-term view that rates have entered a new secular move higher, we recommend that taxable investors target a duration that is slightly short of their benchmark. For investors that do not manage to a specific benchmark, we recommend a duration of 4.00 years. At the same time, we continue to recommend a slight underweight position in U.S. Treasury securities; an underweight position in U.S. agencies and a slight underweight position in mortgage-backed securities (MBS). Alternatively, for yield, we recommend a slight overweight in corporate bonds. We recommend an evenweight position in Preferred securities and Treasury Inflation-Protected Securities (TIPS). For specific allocation recommendations, please contact your Financial Advisor.

U.S. Treasury Yield Curve May 13, 2011-May 20, 2011



Source: Bloomberg
Past performance is not a guarantee of future results

Cross Sector Interest Rates – March 24, 2011

	U.S. Treasury Yield	Agency Yield	Agency Spreads*	Corporate A Rated Yield	Corporate A Rated Spreads*	Municipal AAA Yield	Muni AAA Yield % of Treasury
1-Yr	0.17	0.27	0.10	0.94	0.77	0.25	147.1%
2-Yr	0.53	0.68	0.15	1.45	0.92	0.46	86.8%
5-Yr	1.80	2.13	0.33	2.86	1.06	1.32	73.3%
10-Yr	3.15	3.45	0.30	4.48	1.33	2.83	89.8%
30-Yr	4.28	4.79	0.51	5.58	1.30	4.40	102.8%

Source: Bloomberg   ** Spreads versus comparable maturity U.S. Treasury*
Past performance is not a guarantee of future results

The figures above represent past performance, which is not an indication of future results. These figures do not represent specific investments. Bond quotations may not be representative of the bonds offered by Wells Fargo Advisors or held in its inventory. The yields and rates presented here are the typical average of those available for each type of investment as of dates listed. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment.

Important Information, Risk Factors and Disclaimers

- Past performance is no guarantee of future results.
- Although Treasuries are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate, and deflation risk, which may cause principal to decline and the securities to underperform traditional treasury securities.
- Bond prices fluctuate inversely to changes in interest-rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment.
- Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility.
- Duration is a measure of a security's or portfolio's sensitivity to interest rate changes.
- The yield, average life and the expected maturity of mortgage-backed securities are based on prepayment assumptions that may or may not be met. Changes in prepayments may significantly affect yield, average life and expected maturity.
- With Treasury Inflation Protected Securities (TIPS) investors must report and pay tax on "Phantom income" in the year earned even though they will not receive any principal until maturity.
- High yield bonds, commonly known as junk bonds, are subject to greater risks of loss of principal and interest, including default risk, than higher rated bonds. The price of these bonds may be volatile, and they are generally only suitable for aggressive investors.
- Investments that are concentrated in a specific sector or industry increases its vulnerability to any single economic, political or regulatory development. This may result in greater price volatility.
- Standard & Poor's defines 'B' rated bonds as speculative and subject to high credit risk. BB-rated bonds are judged to have speculative elements; subject to substantial credit risk.

Wells Fargo Advisors research analysts receive no compensation in connection with the firm's investment banking business. Analysts may be eligible for annual bonus compensation based on the overall profitability of the firm, which takes into account revenues derived from all the firm's business activities, including its investment banking business.

Analyst Certification: *The Strategist who prepared the report hereby certifies that the views expressed in this report accurately reflect his personal views about the subject companies and their securities. The Strategist also certifies that he has not been, is not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.*

Pat McCluskey, Senior Fixed Income Strategist

City of Villa Park

Statement of Investment Policy

June 28, 2011

(Previous adoptions January 9, 1996; April 23, 2002; June 25, 2006; February 27, 2007; June 24, 2008; and November 17, 2009)

INVESTMENT POLICY

TABLE OF CONTENTS

1.0 POLICY

The purpose of this Investment Policy (Policy) is to establish cash management and investment guidelines for the City Manager or designee, who is responsible for the administration of the City of Villa Park Investment Program. Each investment transaction and the entire portfolio must comply with the California Government Code, Sections 53600 and 53635 et seq. and this Policy. It is the policy of the City of Villa Park to meet the short and long-term cash flow demands of the City in a manner which will provide for the safety of principal and sufficient liquidity, while providing an optimum investment return.

1.1 Government Code Section 53646 previously mandated that annual investment policies and quarterly reports be rendered to the legislative body. AB2853 amended the Government Code Section 53646 to remove the requirements; the rendering of these documents is permissive rather than mandated.

1.2 Although the Annual Investment Policy and Quarterly Reports are no longer required, we believe it prudent to continue to provide the legislative bodies with these documents. In addition, Government Code Section 53607 has not been repealed that requires an annual delegation of investment authority to the City Treasurer and the submission of reports that include investment transactions by month. Consequently, the City Treasurer will annually render to the City Council a statement of investment policy. The policy shall be reviewed on an annual basis by the City Treasurer and the Investment Advisory Committee.

2.0 SCOPE

This investment policy applies to all investment activities and financial assets of the City of Villa Park with the following exception:

- Investments in the City's Defined Contribution Plans (Deferred Compensation).

2.1 To the extent possible, it is the City's policy to pool funds for investment purposes to provide efficiencies and economies of scale. Investing through a pooled account will provide for greater use of funds by allowing for a more efficient cash flow, a reduction in transaction costs, and a greater access to the market.

2.2 The General Pool consists of all the funds of the City of Villa Park and its component units. The component units are legally separate entities from the City, but are so intertwined with the City that they are, in substance, the same as the City. Currently, the City of Villa Park has no component units. The funds are accounted for in the City of Villa Park's Basic Financial Report and include, but are not limited, to the following:

a) General Fund
b) Special Revenue Fund
c) Capital Project Funds
e) Internal Service Funds

e) Agency Funds
f) Any new funds created by the City Council

2.3 The City's General Pool will be referred to as the "Portfolio" throughout the remainder of this document. The City Treasurer and staff will observe, review and react to changing conditions that affect the Portfolio.

3.0 DELEGATION OF AUTHORITY

3.1 The City Manager or designee has the authority to invest or reinvest the City's funds, to sell or exchange securities so purchased, and to deposit securities for safekeeping in accordance with California Government Code Sections 53600, 16429.1 and 53684, et seq. as further limited by this Investment Policy.

3.2 The City Manager or designee shall establish written procedures for the operation and management of the City's investment program consistent with this investment policy, including appropriate written agreements with financial institutions.

3.3 No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Manager. The City Manager may delegate all, or a portion of his or her investment authority to subordinates pursuant to California Government Code Section 41006, or engage the services of one or more external investment managers to assist in the management of the City's investment portfolio in accordance with the City's Investment Policy. Such delegation and/or engagement by the City Manager shall not remove or abridge his or her investment responsibility.

3.4 Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program or which could impair their ability to make impartial investment decisions. All investment personnel shall comply with the reporting requirements of the Fair Political Practices Committee and include an annual filing of a Statement of Economic Interests.

4.0 PRUDENCE AND STANDARD OF CARE

4.1 California Government Code Section 53600.3 states that "...all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

4.2 Investment officials in the management of the City's funds shall use the "Prudent Investor" standard. Investment officers acting in accordance with this Policy, written portfolio guidelines and procedures, and exercising due diligence shall be relieved of personal responsibility for individual security's credit risk or market price changes, provided deviations from expectations are reported in the monthly investment reports to the City Council, and appropriate action is taken to control adverse developments.

4.3 The City Manager, City Finance Director, City Treasurer, employees involved in the investment process, and the members of the Investment Advisory Committee shall refrain from all personal business activity that could conflict with the management of the investment program. All individuals involved with the investment of City funds, or review of investment transactions, will be required to report all gifts and income in accordance with California state law. When investing and managing City funds, the City Manager, City Finance Director, City Treasurer, and employees shall act with the care, skill, prudence and diligence to meet the aims of the investment objectives listed in order in Section 5.0, Investment Objectives.

5.0 INVESTMENT OBJECTIVES

5.1 The primary objectives, in priority order, of the City's investment activities shall be:

A. **Safety:** Safety of principal is the foremost objective of the investment program. The City's investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

B. **Liquidity:** The City's investment portfolio will remain sufficiently liquid to meet all operating requirements that might be reasonably anticipated within six months.

C. **Yield:** The City shall manage its funds to optimize the return on investments consistent with the two primary objectives of safety and liquidity. The rate of return on investment should be designed to attain a market rate of return through budgetary and economic cycles consistent with the risk limitations, prudent investment principles and cash flow requirements indentified by the City's Investment Policy.

5.2 It is the City's policy to hold investments until market value equals or exceeds amortized cost or book value of the security. However, the City Manager or designee may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the credit quality, liquidity, or rate of return of the portfolio in response to market conditions and/or the City's risk preferences.

5.3 In pursuing the safety of principal investment of City funds, the City's investment program will review and mitigate Credit risk and Market risk.

A. Credit Risk - Credit risk is defined as the risk of loss due to the failure of an issuer to redeem the outstanding debt at the stated maturity date. Within this concept, Credit risk also applies to the overall market perception of the financial strength and capacity of the issuer. Diversification of the investment portfolio by issuer, maturity date and amount invested will ensure that in the event of a failure of any one issuer, the event will not unduly harm or compromise the City's cash flow.

B. Market or Interest Rate Risk – Market or Interest Rate risk is the risk that the market value of investment securities in the portfolio may decline due to changes in general interest rates. Market rate risk can be mitigated by diversifying the investment of funds by maturity date and by investing funds to meet a specific cash requirement that would reduce the need to sell the security prior to maturity to meet immediate City cash flow needs.

6.0 INVESTMENT PROCEDURES

The City Manager or designee shall establish written investment procedures for the operation of the investment program consistent with this policy. As needed, procedures include references to custodial safekeeping, master repurchase agreements, security lending agreements, wire transfer agreements, banking service contracts and collateral/depository agreements.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Manager.

7.0 INTERNAL CONTROLS

7.1 The City Manager or designee shall establish internal controls to provide reasonable assurance that the investment objectives of the City's Investment Policy are met and to ensure that the assets are protected from loss, theft, or misuse. The City Manager and City Treasurer shall be responsible for ensuring that all investment transactions comply with the City's Investment Policy and the California Government Code.

7.2 Cash balances are reconciled weekly by non-investment employees and confirmed by the City's Finance Director.

7.3 Investment activity and holdings are verified monthly by the City's Finance Director and City Treasurer; and annually by the external auditor. These reviews provide internal control by assuring compliance with policies and procedures.

8.0 INVESTMENT ADVISORY COMMITTEE

An Investment Advisory Committee has been established and the members of the Committee are Council-appointed for 2 year terms. The Committee was established to provide general oversight and act in an advisory capacity. The City Treasurer and Finance Director act as liaisons and staff support to the Committee. The Investment Policy is reviewed and approved by the Investment Advisory Committee prior to remittance to the City Council.

9.0 CUSTODY AND SAFEKEEPING OF SECURITIES AND CITY FUNDS

In accordance with California Government Code Section 53601 all securities owned by the City shall be held in safekeeping by the City's custodial bank or a third party bank trust department, acting as agent for the City under the terms of a custody agreement.

9.1 All securities will be received and delivered using standard Delivery-versus-Payment procedures which ensures that securities are deposited with the third party custodian prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts. Investments in the State Pool or other approved Pool(s) or money market mutual funds are not subject to delivery or third party safekeeping.

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

9.3 For investments in Repurchase Agreements, securities and collateral shall be purchased and maintained for the benefit of the City in the Trust Department or safekeeping department of a bank as established by a written third party safekeeping agreement between the City and the bank.

9.4 Funds deposited by the City shall be secured by a Depository in compliance with the requirements of the California Government Code, Section 53652. Such collateralization shall be designated and agreed to in writing.

9.5 Investment securities in bearer form such as, but not limited to, Negotiable Certificates of Deposit and Banker's Acceptances shall be held in a qualified safekeeping institution.

10.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

10.1 To minimize the risk to the City's overall cash and investment portfolio, prudence and due diligence as outlined below shall be exercised with respect to the selection of financial institutions in which the City's funds are deposited and invested.

A. In selecting Depositories pursuant to the Code, Section 53600, et seq., the credit worthiness, financial stability, and financial history of the institution, as well as the cost and scope of services and interest rates offered shall be considered. No funds will be deposited in an institution unless that institution has been evaluated by a nationally recognized independent rating service as satisfactory or better.

B. Deposits of $250,000 or less which are insured pursuant to federal law (12 CFR Part 330) by the Federal Deposit Insurance Corporation (FDIC), or the National Credit Union Administration (NCUA) may be excluded from the independent rating service evaluation requirement above and from the collateralization requirements of Section 9.3 of this Policy, at the City Manager's discretion.

10.2 In selecting external broker-dealers, past performance, stability, financial strength, reputation, area of expertise, and willingness and ability to provide the highest investment return at the lowest cost to the City within the parameters of this Investment Policy and the California Government Code shall be considered. External investment managers must be registered with the Securities and Exchange Committee (SEC) under the Investment Advisor Act of 1940.

10.3 Pursuant to California Government Code Section 53601.5, the City and its investment staff shall only purchase statutorily authorized investments either from the issuer, from a broker-dealer licensed by the state, as defined in Section 25004 of the Corporations Code, from a member of a federally regulated securities exchange, a national or state-chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank of New York.

A. Investment staff will only purchase or sell securities from broker-dealers defined in this section of the City's Investment Policy and meet the minimum requirements of being registered and licensed by the National Association of Securities Dealers (NASD) and possess an active Series 7 license, an active Series 66 license (or Series 63), submission of a NASD form U4 (employment history) and a current NASD form U5 Disclosure Statement and have completed the City's broker-dealer questionnaire.

B. Investment staff will only use broker-dealers that have a minimum of three years continuous experience working for a primary dealer or five years continuous experience working for a non-primary dealer

10.4 The City Manager or designee will maintain a list of financial institutions authorized to provide investment services to the City. An annual review of the financial condition and registrations of qualified bidders will be conducted by the City Treasurer. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the City invests.

10.5 However, if the interaction with the broker-dealer is limited to investment trades through an electronic trading platform, then the broker/dealer is exempt from completing a questionnaire.

10.6 Depositories, broker-dealers, who do business with the City, shall sign a Certification of Understanding (see Appendix B). All broker-dealers who do business with the City shall acknowledge receipt of the City's Investment Policy (see Appendix C).

11.0 AUTHORIZED INVESTMENTS

The City of Villa Park is governed by the California Government Code, Sections 53600, 16429.1 and 53684, et seq.

11.1 The City of Villa Park's Investment Policy specifically **prohibits** the investment of any funds subject to this policy in the following securities:

Derivative securities, as defined in California Government Code Section 53601.6, as any security that derives its value from an underlying instrument, index, or formula, are prohibited. The derivative universe includes, but is not limited to, structured and range notes, securities that could result in zero interest accrual if held to maturity, variable rate, floating rate or inverse floating rate investments, and mortgage derived interest or principal only strips.

Villa Park's Investment Policy further restricts the permitted investments to those listed below.

#	Type of Investment	Cal Gov Code % of Funds Permitted	Villa Park % Funds Authorized**	Cal Gov Code Maximum Final Maturity	Villa Park Maximum Final Maturity
11.2	Bonds issued by the City or agency of the City	100 %	20 % 5% of a single issuer	5 Years	5 Years
11.3	United States Treasury notes, bonds, bills or certificates of indebtedness	100 %	100% 30 % of a single issue	5 Years	5 Years
11.4	Registered State (CA) warrants or treasury notes or bonds	100 %	20 % 5% of a single issuer	5 years	5 years
11.5	Other State of California Local Agency bonds, notes, warrants or other evidence of indebtedness	100 %	10 % 5% of a single issuer	5 years	5 years
11.6	Federal Agency or U.S. government sponsored enterprise (GSE) obligations	100 %	100 % 40 % of a single issuer 10% of a single issue	5 years	5 years
11.7	Banker's Acceptances,	40 % 30% of a single issuer	40 % 5% of a single issuer	180 days	180 days
11.8	Commercial Paper of "Prime" quality	25% 5% of a single issuer	25% 5% of a single issuer	270 days	270 days
11.9	Negotiable Certificates of Deposits	30 %	30% 5% of a single issuer	5 years	5 years
11.10	Repurchase Agreements	100 %	30 %	1 year	1 year
11.11	Reverse Repurchase Agreements	20%	0%	92 days	N/A
11.12	Securities Lending	20%	0%	92 days	N/A
11.13	Medium Term Corporate Notes	30 %	30 % 5% of a single issuer	5 years	5 years
11.14	Shares of beneficial interest, Mutual Funds	20 % 10% of a single fund	20 % 10 % of a single fund	N / A	N / A

#	Type of Investment	Cal Gov Code % of Funds Permitted	Villa Park % Funds Authorized**	Cal Gov Code Maximum Final Maturity	Villa Park Maximum Final Maturity
11.15 .1	State of California Local Agency Investment Fund	$40 million per account	80% max	N / A	N / A
11.15 .2	Orange County Investment Pool	100%	33% max	N / A	N / A
11.16	Time Certificates of Deposit (TCD)	100%, but not more than equity of institution	50% 5% of a single issuer	5 years	5 years

** All percentage limitations will be valued/calculated at the time of purchase based on the most recently Council approved Treasurer's Report investment balances.

For investments in Bankers Acceptances, Commercial Paper, Negotiable Certificates of Deposit, and Medium Term Corporate Notes, the policy limitation of 5% per single issuer applies to the aggregate amount of funds invested in all category investments to a single issuer, including subsidiary companies.

The following is a summary of description and respective City Investment Policy limitations to each asset class or security:

11.2 Bonds issued by the City or agency of the City are defined as "including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency."

11.3 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.

11.4 Registered State (CA) warrants, notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or a department, board, agency, or authority of the state.

11.5 Other State of California Local Agency bonds, notes, warrants or other evidence of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

11.6 Federal Agency or U.S. government sponsored enterprise (GSE) obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

11.7 Banker's Acceptances (BA) otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.

11.8 Commercial Paper (CP) of "Prime" quality is defined as having the highest ranking or the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The issuer must meet the following:

1. Is organized and operating in the United States as a general corporation, has total assets in excess of five hundred million dollars ($500,000,000), has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO;

2. Is organized within the United States as a special purpose corporation, trust, or limited liability company, has programmable credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond, has commercial paper rated "A-1" or higher, or the equivalent, by a NRSRO.

11.9 Negotiable Certificates of Deposits (NCD). Defined as issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state – licensed branch of a foreign bank that can be sold and traded before maturity in the secondary market.

11.10 Repurchase Agreements. Investments are authorized when the term of the agreement does not exceed one year. The market value of securities underlying a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

11.11 Reverse Repurchase Agreements. Reverse repurchase agreements or securities lending agreements may be utilized only when the following condition is met:

The security to be sold on reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale; and the agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

11.12 Securities Lending Program

The City Manager or designee is authorized to engage contractors to perform securities lending activities or to permit custodian banks to subcontract for securities lending services. The securities lending agreement is an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

The base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.

In addition, the security to be sold on reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:

1. The security to be sold on reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale.

2. The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20% of the base value of the portfolio.

3. The agreement does not exceed a term of 92 days.

4. Investments in reverse repurchase agreements and securities lending agreements will only be made with primary dealers of the Federal Reserve Bank of New York, or with a nationally or state-chartered bank that has or has had a significant banking relationship with the City.

5. "Significant banking relationship", is defined as follows:
   a. Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes or other evidence of indebtedness
   b. Financing of a local agency's activities
   c. Acceptance of a local agency's securities or funds as deposits.

11.13. Medium Term Corporate Notes (MTN), defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this category shall be rated "A" or better by: Moody's, Standard & Poor's or Fitch, and shall not include other instruments authorized in Section 11.6 of the Policy (i.e. "Federal Agency" Medium Term Notes are classified as "Federal Agencies").

11.14. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Committee under the Investment Company Act of 1940. The company shall have met either of the following criteria:

1. Attained the highest ranking or the highest letter and numerical rating provided by not less than two of the following: Moody's, Standard & Poor's or Fitch.

2. Retained an investment adviser registered or exempt from registration with the Securities and Exchange Committee with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000).

The purchase price of shares of beneficial interest, (mutual funds) purchased pursuant to this subdivision shall not include any Committee that these companies may charge.

Investments in this category shall be restricted to money market mutual funds that seek to maintain a Net Asset Value of $1. Money market mutual funds provide daily liquidity; therefore, there is no final stated maturity for this investment category. Investments in mutual funds shall be restricted to Funds that have the highest ranking or the highest letter and numerical rating provided by not less than two of the following nationally recognized statistical rating organizations: Moody's, Standard & Poor's or Fitch.

11.15. State & Local Pool - Local Agency Investment Fund and the Orange County Investment Pool. The City may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer under California Government Code Section 16429.1 for the benefit of local agencies. The City may also invest in the Orange County Investment Pool as permitted under the California Government Code Section § 53684.

LAIF provides daily liquidity; therefore, there is no final stated maturity for this investment category. Investments in LAIF shall not exceed 80% of the City's eligible investments. The City currently has an account with the LAIF.

1.1 <u>Additional Investments-Local Agency Investment Fund (LAIF)</u>

Government Code Section 16429.1 further provides for investment in the Local Agency Investment Fund. The City may invest in the Local Agency Investment Fund administered and managed by the State of California, as stated and defined in § 16429.1 provided however, that such investments shall not exceed 80% of the City's surplus monies.

(a) Any monies deposited in the State Treasury for investment pursuant to this section are not subject to impoundment or seizure by any state official or agency while the funds are so deposited.

1.2 <u>Additional Investments-Orange County Treasury, County of Orange</u>

California Government Code § 53684 allows local agencies to deposit excess funds into the Orange County Treasury for purposes of investment by the Orange County Treasurer. § 53684 Alternative Procedure for investment of excess funds.

(b) Unless otherwise provided by law, if the City Treasurer of any local agency, or other official responsible for the funds of the local agency, determines that the local agency has excess funds which are not required for immediate use, the Treasurer or other official responsible for the funds of the local agency, determines that the local agency has excess funds which are not required for immediate use, the Treasurer or other official may upon the adoption of a resolution by the legislative or governing body of the local agency authorizing the investment of funds pursuant to this section and with the consent of the County Treasurer, deposit the excess funds in the county treasury for the purpose of investment by the county treasurer pursuant to § 53601 or 53635.
(c) The County Treasurer shall, quarterly, apportion any interest or other increment derived for the investment of funds pursuant to this section in an amount proportionate to the average daily balance of the amounts deposited by the local agency and district.
(d) In conjunction with the monthly report required to be prepared pursuant to subdivision (b) of § 53646, the County Treasurer shall provide the information described in that subdivision to the Treasurer or other official responsible for the funds of any local agency which has funds on deposit in the county treasury and that information shall, except as otherwise provided in paragraph (4) of subdivision (b) of § 53646, be included by the Treasurer or other official in a monthly report to the legislative or governing body of the local agency.
(e) The Treasurer or other official responsible for the funds of the local agency may withdraw the funds of the local agency at any time but shall give the county treasurer 30 days written notice of his or her intent to withdraw the funds.
(f) Any monies deposited in the County Treasury for investment pursuant to this section are not subject to impoundment or seizure by any county official or agency while the funds are so deposited.
(g) This section is not operative in any county until the board of supervisors of the county, by majority vote, adopts a resolution making this action operative in the county.
(h) It is the intent of the Legislature in enacting this section to provide an alternative procedure to § 51301 for local agencies to deposit money in the County Treasury for investment purposes. Nothing in this section shall, therefore, be construed as a limitation on the authority of a county and a city to contract for the county treasurer to perform treasury functions for a city pursuant to §51301.

The City may invest in the Orange County Investment Pool-Money Market Fund administered and managed by the Orange County Treasurer in accordance with the provisions of § 53684 of the California Government Code, provided however, that such investment shall not exceed 33% of the City's surplus monies.

11.16. Time certificates of deposit (TCD) in state or national banks, savings associations or federal associations, credit unions, or federally insured industrial loan companies. TCD's are technically deposits, not investments; however, they are listed under this section to clarify the City's authority to deposit funds in these instruments. TCD's shall be secured by collateral as required by California Government Code Sections 53652 and 53653.

Ineligible investments: Investments not described herein are ineligible investments. In accordance with Section 53601.6 of the California Government Code, the City shall not invest any funds in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages. In addition, the City shall not invest any funds in any security that could result in zero interest accrual if held to maturity.

12.0 MASTER REPURCHASE AGREEMENTS

A master repurchase agreement will be entered into prior to any repurchase or reverse repurchase agreement transaction. The agreement must specify the terms of the transaction, and in the case of reverse repos, may be entered into only with a primary dealer.

13.0 COLLATERALIZATION

California Government Code, Sections 53652, et seq., requires depositories to post certain types and levels of collateral for public funds above the FDIC insurance amounts. The collateral requirements apply to bank deposits, both active (checking and savings accounts) and inactive (non-negotiable time certificates of deposit).

Collateral is also required for repurchase agreements. The market value of securities used as collateral for repurchase agreements shall not be allowed to fall below 102% of the value of the repurchase agreement and shall be valued daily by the tri-party custodial agent. Securities that can be pledged for collateral shall consist only of securities permitted in California Government Code Section 53601. If there is a default of the broker, the collateral securities can be sold. Since the securities are valued daily, it is likely that the sale proceeds will equal or exceed the value of the repurchase agreement amount.

14.0 DIVERSIFICATION

The City of Villa Park will diversify its investments by security type, issuer and maturity dates. Concentration limits are indicated in the Authorized Investments section 11.0 for all investment categories except Treasury securities.

15.0 MAXIMUM MATURITIES

To the extent possible, the City of Villa Park will attempt to match its investments with anticipated cash flow requirements. The weighted average maturity of the Portfolio will be limited to three (3) years or less. Investments will be restricted to securities with a final stated maturity not to exceed five (5) years.

16.0 REPORTING

As previously discussed, Government Code Section 53646 has been amended to remove the requirement that monthly reports be submitted to the legislative body. We believe that it is prudent to continue the submission of such reports. Consequently, the City Treasurer shall render a monthly report within 30 days of month end, to the City Council, City Manager and Investment Advisory Committee containing detailed information on all securities, investments, and monies of the City.

The report will contain at a minimum the following information on the City Portfolio that is subject to this investment policy: the type of investment, name of the issuer, date of maturity, par value and cost of each investment, any investments, including loans and security lending programs that are under the management of contracted parties, the market value and source of the valuation, a description of the compliance with the statement of investment policy, and a statement denoting the City's ability to meet its anticipated expenditure requirements for the next six months. In compliance with Government Code Section 53607, the report shall also provide investment transactions by month.

17.0 POLICY REVIEW

The City Treasurer and Investment Advisory Committee shall review the Policy, at least annually, to ensure its consistency with the overall investment objectives of preservation of principal, liquidity, and return on investments. The City Council shall adopt the Policy annually. The City Treasurer and Investment Advisory Committee shall also consider relevance to current law, financial and economic trends, and the cash flows needs of the City of Villa Park.

18.0 INVESTMENT IN CERTAIN CITY SECURITIES

While the City does not currently or intend to issue securities that would fall under this particular set of guidelines, the framework is provided in the event this section becomes part of this Policy.

Notwithstanding anything to the contrary contained in this Policy, the City Manager or designee may invest City funds in securities issued by the City as permitted by law. Holding such securities as investments and offering such securities for resale subject to any federal and California laws and regulations applicable to such purchase, holding and resale, including regulations with respect to the exemption of interest from gross income for federal income tax purposes. No in certain types of Certificates or Securities may be made pursuant to this Section unless the Treasurer, the Mayor or the City Manager certifies in writing that such investment is in the best interests of the City by protecting the City's financial position under or in connection with any agreement entered into by the City in connection with any type of Certificate or Security.

Section 1. The City Council hereby approves the addition of this section to the Investment Policy.

Section 2. The Mayor, the City Manager and the Assistant City Manager (each an "Authorized Officer"), severally, are hereby authorized and empowered to execute and deliver in the name of and on behalf of the City any amendment to any document entered into by the City in connection with the any such Certificates which are: (i) necessary or advisable in connection with City business; and (ii) approved as to form by the City Attorney. The City Clerk is hereby authorized and directed to attest to the Authorized Officer's signature to any such amendments.

Section 3. The Authorized Officers and each other officer of the City are hereby authorized and directed, severally, to do any and all things and to execute and deliver any and all documents, certificates and other instruments which they may deem necessary or advisable in order to consummate the transactions contemplated in this resolution, and otherwise to carry out, give effect to, and comply with the terms and intent of this resolution and the documents herein approved and authorized to be executed.

Section 4. This resolution shall take effect immediately upon its adoption.

An Investment Policy shall be rendered to, and adopted by the City Council, annually.

This Investment Policy shall become effective June 28, 2011.

SUBMITTED BY:

____________________________ ____________________________
Dennis Kuli, City Treasurer Date

CONCURRED BY THE INVESTMENT ADVISORY COMMITTEE:

William Nelson, Chairperson

William Underwood, Vice Chairperson

Daniel J. Carlberg, Resident Member

GLOSSARY

AGENCIES: Federal agency securities and/or Government sponsored enterprises.

BANKERS ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BASIC FINANCIAL REPORT: The official annual report for the City. It includes combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules as necessary to demonstrate compliance with GAAP.

BROKER: A broker brings buyers and sellers together for a Committee.

CALLABLE SECURITIES: A security that can be redeemed by the issuer before the scheduled maturity.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Time certificates of deposit are collateralized in accordance with the State code. Large-denomination CD's are typically negotiable and non-collateralized.

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.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

CUSTODIAL TRUST: A service to customers rendered by banks for a fee whereby assets are held in a protected form and cannot be attached by creditors of the bank.

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: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt of the securities.

DERIVATIVES: (1) Financial instruments whose return profile is lined to or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

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

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

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

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per deposit.

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 FHLB 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): Consists of seven members of the Federal Reserve Board and five of the twelve 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 its commercial bank members.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the US Government. Ginnie Mae securities are backed by the mortgages, including FHA and VA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

ISSUER: A legal entity that has the power to issue and distribute securities. Issuers include corporations, municipalities, foreign and domestic governments and their agencies, and investment trusts.

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 size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the County or State Treasurer for investment and reinvestment.

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 or reverse repurchase securities that establishes 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 (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

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: Collection of securities and investments held by an investor.

PRIMARY DEALER: A group of government securities dealers who 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 Committee (SEC) registered securities broker-dealers, banks and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state. In other states, the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

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

RATE OF RETURN: For fixed-rate securities, it is the coupon or contractual dividend rate divided by the purchase price which is also the current yield.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

REVERSE REPO: An agreement whereby a dealer agrees to buy securities and the investor agrees to repurchase them at a later date.

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

SEC RULE 15C301: See Uniform Net Capital Rule.

SECURITIES & EXCHANGE COMMITTEE: Agency created by Congress to protect investors in securities transactions by administering securities legislation. Securities Lending Program - similar to reverse repurchase activity where the local agency uses a third party to administer the program.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and derivative-based returns) into their debt structure.

Their market performance is impacted by the fluctuation of interest rates, the volatility of the embedded options and shifts in the shape of the yield curve.

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

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

TREASURY NOTES: Medium-term coupon-bearing US Treasury securities issued as direct obligations of the US Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Committee requirement that member firms as well as non-member broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15:1; also called *net capital rule* and *net capital ratio.* Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage: (a) Income Yield is obtained by dividing the current dollar income by the current market price for the security; (b) Net Yield or Yield to Maturity is 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 of the bond.

Attachment A

CITY OF VILLA PARK

OFFICE OF THE CITY TREASURER

BANK/SAVINGS AND LOAN QUESTIONNAIRE AND CERTIFICATION

1. Name of Firm ____

2. Address ____

3. Telephone No. ( ) ______________ ( ) ______________________
   (Local) (National Headquarters)

4. Primary Representative: Manager:

   Name ____________________ Name ____________________________

   Title _____________________ Title ____________________________

   Telephone No. ( )__________ Telephone No. ( )____________________

   E-mail ____________________ E-mail ___________________________

5. What is your Community Reinvestment Act (CRA) Rating? ______________

6. What are the Total Assets of the Bank/Savings and Loan? ______________

7. What is the current Net Worth Ratio of your institution? ______________

8. What was the Net Worth Ratio for the Previous Year? ________________

9. What are your required Capital Ratios:

   A. Tangible Capital Ratio ________________________________
   B. Core Capital Ratio ___________________________________
   C. Risk-Based Capital Ratio _____________________________

10. What are your Ratings (i.e. S&P, Moody's, Thompson) ________________

11. What is the date of your Fiscal Year-End? ______________________________

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

12. Have you read the California Government Code Section 53630, et seq., pertaining to the State's requirements governing the deposit of monies by Local Agencies that include cities? [ ] YES [ ] NO

13. Amounts above the FDIC insurance coverage must be collateralized as specified in the California Government Code. Where is the collateral for deposits held?
    ____

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

14. What is the education level of the Primary Contact(s)? ____________________

15. How many years of related experience does the Primary Contact(s) have?
    ____

16. What other banking services would you be interested in providing the City of Villa Park? ____

17. What transaction documents and reports would we receive? ________________
    ____

18. What information would you provide to our City Treasurer? ________________
    ____

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

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

21. Please provide your Wiring Instructions. ________________________________
    ____
    ____

22. Please provide your most recent certified financial statement. In addition, an audited financial statement must be provided within 120 days of your fiscal year-end.

Bank and Savings & Loan

CERTIFICATION

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

NOTE: **Completion of the questionnaire is only part of the City of Villa Park's certification process and DOES NOT guarantee that the applicant will be approved to do business with the City of Villa Park.**

SIGNED: ______________________________ DATE: ________________

COUNTERSIGNED: _____________________ DATE: ________________

Attachment B

CITY OF VILLA PARK

OFFICE OF THE CITY TREASURER

BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION

1. Name of Firm ____

2. Address ____

3. Telephone No. ( ) ________________ ( ) ________________________
   (Local) (National Headquarters)

4. Primary Representative: Manager:

   Name ____________________ Name ________________________

   Title ____________________ Title ________________________

   Telephone No. ( )__________ Telephone No. ( )____________

   E-mail ____________________ E-mail ________________________

5. What is your Community Reinvestment Act (CRA) Rating? ____________

6. What are the Total Assets of the Bank/Savings and Loan? ____________

7. What is the current Net Worth Ratio of your institution? ____________

8. What was the Net Worth Ratio for the Previous Year? ____________

9. What are your required Capital Ratios:

   A. Tangible Capital Ratio ________________________
   B. Core Capital Ratio ________________________
   C. Risk-Based Capital Ratio ________________________

10. What are your Ratings (i.e. S&P, Moody's, or Thompson)? ____________

11. What is the date of your Fiscal Year-End? ______________________

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

12. Have you read the California Government Code Section 53630, et seq., pertaining to the State's requirements governing the deposit of monies by Local Agencies that include cities? [ ] YES [ ] NO

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

    ____

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

    ____

14. What is the education level of the Primary Contact(s)? ______________________

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

    ____

16. What other banking services would you be interested in providing the City of Villa Park? ______________________

17. What transaction documents and reports would we receive? ______________________

    ____

18. What information would you provide to our City Treasurer? ______________________

    ____

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

    ____

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

21. Please provide your Wiring Instructions. ______________________

    ____

    ____

22. Please provide your most recent certified financial statement. In addition, an audited financial statement must be provided within 120 days of your fiscal year-end.

Broker / Dealer

CERTIFICATION

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

NOTE: **Completion of the questionnaire is only part of the City of Villa Park's certification process and DOES NOT guarantee that the applicant will be approved to do business with the City of Villa Park.**

SIGNED: ______________________________ DATE: ______________

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