

APPENDIX

CITY OF NAPA STATEMENT OF INVESTMENT POLICY April 2025

1. Policy

It is the policy of the City of Napa ("City") to invest public funds in a manner which will provide maximum security, meet the daily cash flow demands of the City, and provide highest investment return while conforming to all California laws and local statutes governing the investment of public funds.

2. Scope

This investment policy applies to all the funds and investment activities under the direct authority of the City. This investment policy has been separately approved by the respective governing body of the Housing Authority of the City of Napa ("HACN"); thus, references in this policy to the "City" shall apply equivalently to HACN. There are four categories of funds that are separately invested in accordance with specialized requirements for administration and reserve requirements, which supersede conflicting requirements of this policy, including: employees' retirement funds (governed by CalPERS), pension stabilization trust funds (governed by separate investment guidelines adopted by City Council), CERBT trust funds (Governed by CalPERS), and certain debt issues which are invested by trustees appointed under indenture agreements. Funds are accounted for in the City's Annual Comprehensive Financial Report (ACFR) and include the following:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Debt Service Funds
- Enterprise Funds
- Internal Service Funds
- Trust and Agency Funds

3. Prudence

All persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the prudent investor standard: 'When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

4. Objective

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

4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. The City

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

4.2 Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

4.3 Return on Investment: The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

5. Delegation of Authority

Pursuant to the City of Napa Municipal Code Section 2.32.030(g), the Finance Director/Treasurer is delegated investment authority and is responsible for investment decisions and activities. Section 53607 of the California Government Code requires that delegation of authority is only valid for a one-year period or until the delegation of the authority is revoked or expires. Authority must be renewed each year. The Finance Director/Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to: Safekeeping, master repurchase agreement, wire transfer agreement, collateral/depository agreement and banking service contract. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No City personnel may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director/Treasurer. He or she shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The City may engage the services of one or more external professional money managers to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisors Act of 1940.

6. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business within the jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City's, particularly with regard to the time of purchases and sales.

7. Authorized Money Managers. Financial Dealers and Institutions

The City may contract with professional money managers to assist in the management of all or part of its investment portfolio in compliance with the investment guidelines detailed in the Allowable Investment and Additional Investment Guidelines of this policy (Reference pages 6-

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12).

If the Finance Director/City Treasurer directly invests in individual securities, then the City will maintain a list of financial institutions and primary dealers authorized to provide investment services. Professional money managers working with the City may maintain their own list. "Primary" dealers include those that regularly report to the Federal Reserve Bank and should qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

All financial institutions, dealers and cash managers who desire to become qualified bidders for investment transactions must supply the City with the following: audited financial statements, proof of National Association of Security Dealers certification when applicable, trading resolution, proof of State of California registration when applicable, completed questionnaire and certification of having read the City of Napa's investment policy and depository contracts.

A current audited financial statement is required to be on file for each financial institution and dealer.

8. Authorized Investments

The City is governed by the California Government Code Sections 53600 et seq. Authorized investments of the City are detailed in the Allowable Investment and Additional Investment Guidelines of this policy (Reference pages 6-12).

9. Review of Investment Portfolio

The securities held by the City must be in compliance with Section 8.0 Authorized Investments at the time of purchase. Because some securities may not comply with Section 8.0 Authorized Investment subsequent to the date of the purchase, the Treasurer should at least annually review the portfolio to identify those securities that do not comply. The Finance Director/Treasurer should establish procedures to report to the City and to its oversight committee, should one exist, major and critical incidences of noncompliance identified through the review of the portfolio.

10. Collateralization

Collateralization will be required as indicated in the Allowable Investment and Additional Investment Guidelines of this policy (Reference pages 6-12). Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the city and retained. The right of collateral substitution may be granted.

11. Safekeeping and Custody

All securities owned by the City, shall be held in safekeeping by the City's custodian bank or a third party bank trust department, acting as agent for the City under the terms of a custody or trustee agreement executed by the bank and by the City. All securities will be received and delivered using standard delivery-versus-payment (DVP) procedures.

12. Diversification

The City will diversify its investments by security type and institution as detailed in the Allowable Investment and Additional Investment Guidelines of this policy (Reference pages 6-12).

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13. Maximum Maturities

Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than 5 years from the date of purchase (See exception indicated in the Allowable Investment and Additional Investment Guidelines of this policy (Reference pages 6-12). For purposes of compliance with this Policy, an investment's term or remaining maturity shall be measured from the settlement date to final maturity.

14. Internal Control

The Finance Director/Treasurer shall establish a system of written internal controls which shall be reviewed by an independent auditor. This review will provide internal control by assuring compliance with policies and procedures. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. Controls deemed most important include: control of collusion, separation of duties, separation of transaction authority from accounting and recordkeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized investment officials, documentation of transactions and strategies, and code of ethics standards.

15. Performance Standards

The investment portfolio shall be designed to attain a market average rate of return through budgetary and economic cycles, taking into account the investment risk constraints and cash flow needs. The specific investment performance objective for the portfolio shall be to earn a total rate of return over a market cycle which is approximately equal to a market benchmark index. The current benchmark index for the portfolio is the Merrill Lynch U.S. Treasuries/Agencies 1-5 Year Index.

16. Investment Pools / Mutual Funds

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. Best efforts will be made to acquire the following information:

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

17. Reporting

Per California Government Code section 53607, the Finance Director/Treasurer shall provide monthly transactions to the City Council.

Per California Government Code section 53646, the Finance Director/Treasurer may render a periodic report to the City Council. This report shall include:

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Type of investment, issuer,
Date of maturity,
Par and dollar amount invested on all securities,

The quarterly report shall state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance. The quarterly report shall also include a statement denoting the ability of the local agency to meet its pool's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available. The quarterly report shall be submitted within 45 days following the end of the quarter covered by the report.

Monthly statements generated by the City's contracted investment managers shall provide the following information:

Type of investment
Issuer
Maturity date
Par and dollar amount invested on all securities
Market value as of the date of the report and source of valuation

18. Investment Policy Adoption

The City's investment policy shall be adopted by City Council resolution. Any modifications made thereto must be approved by the City Council.

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A. CASH AND INVESTMENT INSTRUMENTS

City funds that are necessary to meet current operating demands may be kept in checking accounts and savings accounts at financial institutions as identified in California State Government Code Section 53648 provided that they are adequately secured with proper collateral as prescribed by Government Code Sections 53656 and/or 53658. The Finance Director/City Treasurer is authorized to establish systems by which funds may be transferred between these checking and savings accounts, and to and from allowable investment instruments in accordance with this policy.

Allowable investments for the portfolio of the City are limited by California State Government Code Sections 53601 et seq.; 53635. They are further restricted by the Finance Director/City Treasurer's investment strategy. Allowable investments for the Housing Authority of the City of Napa are further restricted by the Federal Department of Housing and Urban Development's (HUD) Required HA Cash Management and Investment Policies and Procedures as provided in Notice PIH 96-33(HA).

Percentages of Investment Participation and percentages of Maximum Investment Participation apply at the time of purchase. Purchase transactions may not exceed \$10,000,000, nor exceed five-year maturities. Exceptions can only be approved by City Council. A security purchased in accordance with this Policy shall not have a forward settlement date exceeding 45 days from the time of investment. The investment instruments and percentages of participation permitted by this policy are:

1. U.S. Treasury Securities (bills, notes and bonds) are sold to finance gaps between the federal government's receipts and expenditures.

A Treasury bill (or T-bill) is an obligation of the U.S. government to pay the bearer a fixed sum on a specific date. Bills are sold by the Treasury at a discount from their par (face) value through a competitive auction.

Treasury notes are coupon securities paying interest every six months and have a fixed maturity of not less than one year and not more than 10 years.

Treasury bonds are coupon securities paying interest every six months with maturities of more than 10 years.

California Government Code Section 53601 Requirement: No limit specified:

City of Napa Limitation:

- 1) Maximum maturity - 5 years
- 2) Maximum par value total size - None
- 3) Maximum par value per issue - None
- 4) Credit- Full faith and credit of the Federal Government

2. U.S. Agency & Government Sponsored Enterprise Securities are not direct obligations of the United States but rather are direct obligations of agencies of the federal government or government-sponsored enterprises.

Securities issued by U.S. government agencies are backed by the full faith and credit of the

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U.S. government.

The federal government has sponsored the creation of, or the financial support of several corporations, also known as government-sponsored enterprises. None of these organizations carry the federal government guarantee.

FDIC-guaranteed securities were a new fixed-income asset class in 2008 that resulted from the Federal Depository Insurance Corporation's creation of the Temporary Liquidity Guarantee Program (TLGP). Eligible banking institutions participating in the TLGP Program were able to issue debt guaranteed by the FDIC through 10/31/09. The Program covers commercial paper and corporate debt issued by participating banks and bank holding companies for issues that are greater than 30 days maturity, but maturing on or before 12/31/2012.

California Government Code Section 53601 Requirement: No limit specified.

City of Napa Limitation:

- 1) Maximum maturity - 5 years
- 2) Maximum allocation - no limitation
- 3) Maximum allocation per issuer - no limitation
- 4) Credit - Despite having no statutory limitation concerning this category, prudent investment practice necessitates constant analysis of the issuing agency. Although these issues have either the implicit or explicit guarantee of the federal government, market perception often limits the liquidity of these issues.

3. Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency, or by a department, board, agency or authority of the state or any local agency.

California Government Code Section 53601 Requirement: No limit specified.

City of Napa Limitation:

- 1) Maximum maturity - 5 years
- 2) Maximum allocation - no limitation
- 3) Maximum allocation per issuer - 5%
- 4) Credit - Despite having no statutory limitation concerning this category, prudent investment practice necessitates constant analysis of the issuing State or agency.

4. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state, or by a department, board, agency, or authority of any of these states.

California Government Code Section 53601 Requirement: No limit specified.

City of Napa Limitation:

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- 1) Maximum maturity - 5 years
- 2) Maximum allocation - no limitation
- 3) Maximum allocation per issue - 5%
- 4) Credit - Despite having no statutory limitation concerning this category, prudent investment practice necessitates constant analysis of the issuing State.

5. Bankers acceptances are typically created from a letter of credit issued in a foreign trade transaction. It is a time draft drawn on and accepted by a bank to pay a specified amount of money on a specified date.

California Government Code Section 53601 Requirement:

- 1) Purchases may not exceed 180 days.
- 2) Purchases are restricted to 40% of the agency's surplus money.
- 3) No more than 30% of the City's surplus money may be invested in the bankers' acceptances of any one commercial bank.
- 4) Include only those that are eligible for discounting with the Federal Reserve System.

City of Napa Limitation:

- 1) Maximum maturity – 180 days
- 2) Maximum allocation is 30% of portfolio
- 3) Maximum par value per institution - regardless of sector, \$2,000,000 or 5% whichever is lower.
- 4) Credit - financial institutions that shall only include banks that have short-term credit ratings of A-1, P-1 or equivalent ratings from other recognized rating services.

6. Certificate of Deposit

6A. Certificate of Deposit (Time Deposit) is a time deposit in a financial institution documented by a certificate that bears a specified dollar amount of the deposit, a specified maturity date and a specified interest rate.

California Government Code Section 53635.8 Requirement: No limit specified.

City of Napa Limitation:

- 1) Maximum maturity - 2 years
- 2) Maximum par value total size - No restriction
- 3) Maximum par value per institution - \$250,000
- 4) Credit - from City authorized financial institutions. Collateralization must comply with statutory regulations.

6B. Negotiable Certificate of Deposits are issued by nationally or state-chartered banks, savings associations or federal associations (as defined by Section 5102 of the Financial Code), state or federal credit unions, or by federally- or state-licensed branches of foreign banks and are traditionally trade in lots of at least \$1,000,000.

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California Government Code Section 53601 Requirement: Shall not exceed the net worth of the institution.

City of Napa Limitation:

- 1) Maximum Maturity - 5 years
- 2) Maximum allocation 30%
- 3) Maximum allocation per institution - 5% regardless of sector
- 4) Credit - Must be rated in a rating category of "A" (long-term) or its equivalent or better or A-1 (short-term) or its equivalent or better, by a nationally recognized statistical-rating organization.

7. Commercial Paper are short-term unsecured promissory notes issued by various economic entities in the open market to finance certain short-term credit needs.

California Government Code Section 53601 Requirement:

- 1) Prime quality of the highest ranking or of the highest letter and numerical rating as provided for by nationally recognized statistical-rating organization.
- 2) Issuing corporation must be organized and operating within the United States.
- 3) Issuing corporation must have total assets in excess of five hundred million dollars (\$500,000,000).
- 4) Issuing corporation must be rated in a rating category of "A" or its equivalent or higher by a nationally recognized statistical-rating organization for the issuer's debt, other than commercial paper.
- 5) Purchases may not exceed 270 days maturity.
- 6) Purchases may not exceed 40% of the agency's surplus money.
- 7) No more than 10% of the agency's total investment assets may be in the commercial paper and the medium-term notes of any single issuer.

City of Napa Limitation:

- 1) Maximum maturity - 270 days
- 2) Maximum allocation - 40%, effective until January 1, 2026. After January 1, 2026, maximum allocation - 25%.
- 3) Maximum allocation per issuer - 5% per issuer regardless of sector.
- 4) Credit - CA GC Section 53601 requirements.

8. Medium Term Notes (MTNs) issued by corporations organized and operating within the United States.

California Government Code Section 53601 Requirement:

- 1) Maximum of five years maturity
- 2) Shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized statistical ratings organization.
- 3) May not exceed 30% of surplus money
- 4) No more than 10% of the agency's total investment assets may be in the

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commercial paper and the medium-term notes of any single issuer.

City of Napa Limitation:

- 1) Maximum maturity – 5 years
- 2) Maximum allocation - 30%
- 3) Maximum allocation per issuer - 5% regardless of sector
- 4) Credit - from City or money manager authorized institutions that shall only include institutions rated in a rating category of “A” or its equivalent or higher by a nationally recognized statistical-rating organization. Any downgrading of these issues below the minimum required after purchase shall be reported to the Council in the quarterly reports.

9. Local Agency Investment Fund (LAIF) was established by the State to enable treasurers to place funds in a pool for investments.

City of Napa Limitation: None

LAIF Limitations:

- 1) Maximum amount permitted by LAIF’s Local Investment Advisory Board.
- 2) No more than 15 transactions in a month

10. A Repurchase Agreement is not a security but a contractual agreement. It consists of two simultaneous transactions. First, an investor purchases securities (collateral) from a bank or dealer. At the same time, the selling bank or dealer contractually agrees to repurchase the collateral security at the same price (plus interest) at some mutually agreed future date.

California Government Code Section 53601 Requirement:

- 1) Term of repurchase agreements shall be for 1 year or less.
- 2) All securities under a repurchase agreement shall be held by the agency's safekeeping agent.
- 3) The seller of repurchase securities shall not be entitled to substitute securities, except as authorized by the City. New or substitute securities should be reasonably identical to the original securities in terms of maturity, yield, quality and liquidity.

City of Napa Limitation: This investment vehicle, when utilized, shall comply with the following guidelines:

- 1) Maximum maturity - 30 days
- 2) Maximum par value total size - 20%
- 3) Maximum par value per institution - 20%
- 4) Credit -
 - a) Securities shall be marked to market daily and shall be maintained at a value no lower than \$102.
 - b) Securities acceptable as collateral shall be U.S. Treasury obligations only.
 - c) It should be covered by a master repurchase agreement.
- 5) Repurchase agreements shall only be made with primary dealers of the Federal Reserve Bank of New York.

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11. Money Market Funds The City is authorized to invest in shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and are subject to either one of the following requirements:

- 1) The institutions shall have the highest rating provided by not less than two nationally recognized rating services.
- 2) The institutions' investment advisors shall be registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price of shares of beneficial interest purchased shall not include any commission that these companies may charge.

City of Napa Limitation:

- 1) Maximum allocation - 20% of agency's funds.
- 2) Maximum of 10% per any one money market mutual fund.

12. California Asset Management Program. The City is authorized to invest in shares of the California Asset Management Program, a joint powers authority established to provide investment services for California public agencies under section 53601(p).

- 1) City of Napa Limitation: None
- 2) CAMP Limitations: City's investment may not comprise more than 10% of the CAMP Pool.

13. Asset-Backed Securities. The City is authorized to invest in a mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond.

California Government Code Section 53601 Requirement:

- 1) Maximum remaining maturity of five years or less
- 2) Shall be rated in a rating category of "AA" or its equivalent or better.
- 3) May not exceed 20% of surplus money

City of Napa Limitation:

- 1) Maximum maturity - 5 years
- 2) Maximum allocation - 20%
- 3) Maximum allocation per issuer - 5% regardless of sector
- 4) Credit - CA GC Section 53601 requirements.

14. Supranationals. The City is authorized to invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

California Government Code Section 53601 Requirement:

- 1) Maximum of five years maturity

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- 2) Shall be rated in a rating category of “AA” or its equivalent or better by a nationally recognized statistical ratings organization.
- 3) May not exceed 30% of surplus money

City of Napa Limitation:

- 1) Maximum maturity- 5 years
- 2) Maximum allocation 30%
- 3) Maximum allocation per issuer- 5% regardless of sector
- 4) Credit- CA GC Section 53601 requirements.

Other investments not authorized by the City of Napa (with the exception of LAIF and CAMP):

- 1) Reverse repurchase agreement
- 2) Mutual funds
- 3) Derivatives such as financial futures and options, step-ups, floaters, inverse floaters, Interest-only (IOs), Principal-only (POs), forwards, currency and interest rate swaps, caps, floors, collars, STRIPS except those already owned as of 12/31/83), etc.
- 4) Local government investment pools other than LAIF unless specifically approved by the City Council.
- 5) Eurodollar CDs
- 6) Federal (Fed) funds.

B. ADDITIONAL GUIDELINES

- 1) Where California Government Code Section 53601 specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase.
- 2) The rating criteria will apply at the time of purchase. If an eligible investment is downgraded after purchase to a rating category which is below the minimum required, the Deputy Finance Director will document his/her analysis and recommendation for disposition of the security for review and approval by the Finance Director / Treasurer.
- 3) Securities shall not be purchased with trading or speculation (such as anticipating an appreciation of capital value through changes in market interest rates) as the dominant criterion for the selection of the security,
- 4) Transfer of funds to any one institution of more than \$5,000,000 shall be approved by the Finance Director/Treasurer.
- 5) All new financial institutions or primary dealers not already approved by professional money managers working with the City shall be approved by the Finance Director/Treasurer.
- 6) Trading is prohibited when cash or securities are not available to pay for the securities being purchased. Taking of short position, i.e. selling securities which the City does not own, is also prohibited.
- 7) Written policies and procedures for the delegation of authority for all investment activities shall be strictly followed.

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- 8) Written investment procedures shall be strictly followed.
- 9) In case a financial institution or depository is downgraded, the Finance Director/Treasurer shall promptly make and implement an informed decision on whether to sell, withdraw, or retain any security or deposit in the City portfolio issued or held by such affected financial institution or depository.
- 10) Written policies and procedures for the selection and maintenance of qualified financial institutions should be strictly followed. The Finance Director/Treasurer shall continue to monitor financial institutions' credit characteristics and financial history throughout the period in which City funds are deposited or invested.

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AGENCIES: Federal agency securities and/or Government Sponsored Enterprises (GSE) which include Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCB), and Federal Agricultural Mortgage Association (Farmer Mac).

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): The official annual report of the (*entity*). It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

ASKED: The price at which securities are offered.

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

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

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

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

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.

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 for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or

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(2) financial contracts based upon notional amounts 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: Noninterest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (*e.g., U.S. Treasury Bills.*)

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

DURATION: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

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

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.

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 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—reverse repurchase agreements 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.

MEDIUM TERM NOTES: 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.

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

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OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

PORTFOLIO: Collection of securities 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 Commission (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—the so-called legal list. 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.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (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.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

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

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

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

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

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

SUPRANATIONALS: A supranational organization is formed by a group of countries through an international treaty with specific objectives such as promoting economic development. Supranational organizations also issue debt in the United States. The most commonly recognized supranational debt is the International Bank for Reconstruction and Development (IBRD or World Bank), International Finance Corporation (IFC) and Inter-American Development Bank (IADB).

TREASURY BILLS: A noninterest-bearing discount security issued by the U.S. 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 U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

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

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.