County of El Dorado

Treasury Investment Policy

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1. County of El Dorado Introduction & Overview

El Dorado County encompasses 1,805 square miles of rolling hills and mountainous terrain. The County's western boundary contains part of Folsom Lake, and the eastern boundary is also the California-Nevada State line. The County is topographically divided into two zones. The northeast corner of the County is in the Lake Tahoe basin, while the remainder of the County is in the "western slope," the area west of Echo Summit. El Dorado County was one of the original 27 Counties of the State of California, formed by an Act on February 18, 1850. The County is the 31st largest County (by population) in California.

The El Dorado County Investment Pool ("Pool") is comprised of monies deposited by participants including the County of El Dorado, K-12 school districts, fire districts and special districts within the County. The El Dorado County Treasurer ("Treasurer") invests the Pool monies in accordance with conservative standards set forth in the California Government Code and the El Dorado County Investment Policy ("Policy").

2. Policy/Purpose

The purpose of this Policy is to provide guidance for the investment of funds in excess of the current day anticipated expenditures. Investment responsibility has been entrusted and delegated to the Treasurer in accordance with California State Law ("Law"). This Policy is intended to provide guidelines to ensure compliance with California Government Code ("Gov. Code") §27000 et seq. and §53600 et seq., as well as any forthcoming amendments or additions to the California Government Code in relation to the investment of local agency idle funds and to meet the objectives of the Policy in priority order of safety, liquidity, return on investment, public trust, and strategy. This policy is crafted to define the objectives of managing the combined Pool and maintain internal controls and reporting requirements.

A glossary of investment terms has been included as Attachment II for reference.

This Policy shall remain in effect until the El Dorado County Board of Supervisors ("Board") approves a subsequent revision.

3. Scope

This Policy applies to all funds over which the Treasurer has been delegated fiduciary responsibility.

This Policy is intended to cover all investment activities in the Investment Pool under the direct authority of the Treasurer. The County maintains the Investment Pool with cash and investments which provide cash flow for the funding needs of the participants. A list of all participants is maintained in the County's enterprise financial system.

4. Primary Investment Objectives

The investment program shall provide for daily cash flow requirements while following the objectives of this Policy in priority order of Safety, Liquidity, Return on Investments, Public Trust and Strategy. In accordance with Gov. Code § 53600.5, the primary objectives of the investment program for the Pool, in priority order, shall be:

4.1 Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a prudent manner as to ensure the preservation and return of capital in the overall portfolio. To attain this objective, investments will only be made in highly rated or strongly collateralized securities with a very high probability of maintaining the principal amount invested. The County will diversify its investments by type, issuer, and maturity among a variety of securities with independent returns.

4.2 Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This objective shall be achieved by matching investment maturities with forecasted cash outflows and maintaining an additional liquidity buffer for unexpected expenditures payments. In addition, reserves may be held in a local government investment pool offering same day withdrawal.

4.3 Return on Investments

The investment portfolio strategy shall be designed with the objective of achieving a competitive market rate of return or yield, while adhering to credit quality requirements, and liquidity needs. A market rate of return should correspond with the County's investment risk constraints identified in the Policy and the cash flow requirements of the depositors. Due to the primary objectives of safety and liquidity, the portfolio's yield may be lower than that of a higher risk and/or longer maturity investment pool.

4.4 Public Trust

Investments are made in the best interest of the public and decisions are not influenced by lobbying or special interest groups. The Treasurer strives to support Local, California-based institutions offering instruments that comply with this Policy and these primary investment objectives.

4.5 Strategy

The core investment strategy will call for securities to be held to maturity. The following exceptions may apply:

- Liquidity needs of the portfolio require a security to be sold
- A security with declining credit may be sold early to ensure no loss of principal; or

Sale of a security before maturity may be made if such sale will allow investment in a higher-yielding instrument and any loss upon sale can be more than compensated by additional interest earnings within a six-month period.

5. **Delegation of Authority**

In accordance with Gov. Code §27000-27013 and Gov. Code §53607, the Board has delegated the daily investment of Pool funds to the Treasurer. This is an annual delegation given to the Treasurer by the Board and can be revoked at any time. The Treasurer is responsible for all transactions and for establishing a system of controls to regulate the activities of staff authorized to invest, specifically the Assistant Treasurer-Tax Collector and the Treasury Investment Analyst, and their procedures in the absence of the Treasurer.

6. Prudent Investor Standard

In accordance with Gov. Code §53600.3, the Treasurer is a fiduciary subject to the "Prudent Investor Standard" which shall be applied in the context of managing the overall portfolio. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Treasurer shall act with care, skill, prudence, and diligence to meet the objectives set forth in the Policy to safeguard investment principal, maintain liquidity needs of the County and earn a reasonable competitive market rate of return.

7. Ethics and Conflicts of Interest

Investment officials shall refrain from personal business activity that could conflict with proper execution and management of the Policy and investment program, or which could impair their ability to make impartial decisions. Investment officials must file a public disclosure document (Statement of Economic Interest Form 700) with the California Fair Political Practices Commission by April 1 of each year or when material interest in financial institutions or personal investment positions requires it. Furthermore, investment officials must refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution with which business is conducted on behalf of the County.

8. Authorized Broker-Dealers and Institutions

In accordance with Gov. Code §53601.5, the Treasurer shall maintain an approved list of broker-dealers and institutions authorized to provide investment services to the County. The approved list may include "primary" or regional dealers qualified under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule) with a minimum capitalization of $250,000 and have at least one major office in the State of California. Broker-Dealers staff assigned to El Dorado County ("County") accounts must have at least five years of experience in California public agency investing with knowledge of investment products acceptable under the Policy. The firms and individuals assigned to the County accounts shall be reputable and trustworthy. No public deposit shall be made except in a qualified public depository as established by Law.

All financial institutions and broker-dealers proposing to conduct investment transactions with the County shall supply the following to the Treasurer for review:

- ♦ Proof of registration with the Financial Industry Regulation Authority (FINRA)
- ♦ Proof of registration with the State of California
- ♦ Completed Broker-Dealer Questionnaire
- ♦ Certification of review and willingness to comply with all aspects of this Policy.

Broker-Dealers are prohibited from making political contributions to any candidate for the Board or Treasurer, which exceed the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board. The County is prohibited from selecting any broker-dealer or security firm within any consecutive 48-month period following a contribution exceeding the limit set forth in the above rule. (Gov. Code §27133)

An annual review of the financial condition and registrations of previously approved firms will be conducted by the Treasurer, or his/her designee. A current audited financial statement is required to be on file for each financial institution and broker-dealer on the County's approved list.

9. Authorized and Suitable Investments

The investment instruments listed in Attachment 1 are authorized for investment and any instruments not listed are specifically prohibited. Authorized investments are allowed under Gov. Code §53601 and §53635 and concentration limitations are equivalent to, or more conservative than, the code allows.

9.1 The County ensures all minimum credit quality requirements listed in Gov. Code §53601 are adhered at the time of purchase and annually thereafter.

9.2 In accordance with Gov. Code §53601 and §53635, investments will only be made in authorized securities with a maturity date of five years or less from the transaction settlement date unless otherwise approved by the Board. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit. The Treasurer may place further restrictions upon the types of investments for which money on deposit in the Treasury may be invested.

9.3 Federal Deposit Insurance Corporation (FDIC) insured instruments and all instruments backed by the full faith and credit of the United States Government are permitted investments.

10. Prohibited Investments

No investment shall be made that is prohibited by law. Thus, no investments are authorized in inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, nor in any other investment that could result in zero interest if held to maturity. (Gov. Code §53601.6)

11. Due Diligence - Investment Pools

Due diligence shall be performed by investigating any pool, financial institution, or fund prior to investing and on an annual basis thereafter. This due diligence shall include, at a minimum, a periodic review of recent news, financial statements and U.S. Securities and Exchange Commission (SEC) filings related to each entity.

12. Review of Investment Portfolio

The securities held by the Pool must be in compliance with Policy Section 9 Authorized and Suitable Investments, at the time of purchase. The Treasurer shall, at least annually, review the portfolio to identify any securities that may not comply with Section 9 after the date of purchase and establish a procedure to report to the Board any major or critical incidences of non-compliance identified through review of the portfolio.

13. Collateralization

In accordance with Gov. Code §53601, collateralization will be required on certificates of deposit and repurchase agreements. Collateralization of any investment will be in accordance with securities approved under this Policy. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement.

14. Safekeeping and Custody

In accordance with Gov. Code §53608, all securities purchased shall be held in safekeeping by a third-party custodian pursuant to an agreement between the custodian and the Treasurer pursuant to Gov. Code §53608. "Delivery versus payment" shall be used for securities transactions, and no security will be held by the broker-dealer from whom purchased.

15. Market Risk and Losses

It is recognized in an active portfolio occasional loss on individual securities are inevitable and must be considered within the context of the overall investment return. Generally, losses are acceptable on a sale before maturity and should be taken if reinvested proceeds will earn an income flow with a present value higher than the present value of the income flow that would have been generated by the old/original investment. However, the sale of a security at a loss can only be made with the approval of the Treasurer or if designated, the County Assistant Treasurer-Tax Collector.

16. Diversification

The Treasurer will diversify the Pool investments by security type and institution to achieve a diversified mix of independent maturities.

17. Maximum Maturities

Investment purchases shall not include securities maturing more than five years from the date of purchase unless previously approved by the Board. If approved by the Board, reserve funds may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds. Board approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.

18. Internal Controls

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Pool are protected from loss, theft, fraud, or misuse. Internal controls are designed with the intended purpose of preventing or minimizing loss of public money, and to provide reasonable assurance that Treasury investment objectives are met.

A system of internal controls is maintained to address the following issues, but is not limited to these issues:

- Separation of transaction authority from accounting and record keeping
- Third-party custodial safekeeping
- Clear delegations of authority
- Written confirmations from appropriate parties
- Guidelines for attempting to prevent losses, and appropriate remedial action in the event of loss
- Provisions for legal compliance monitoring
- Provisions for ongoing monitoring and auditing of internal controls.

An independent review by an external auditor, with the scope of the audit to be determined by the El Dorado County Auditor-Controller ("Auditor-Controller") in consultation with the Treasurer will be completed annually. This review will provide internal control by assuring investment transactions are in compliance with policies, procedures, and laws.

The annual audit shall be supervised by a Certified Public Accountant (CPA) who shall render an opinion to the Auditor-Controller. The opinion shall be forwarded to the Board for review and acceptance. The selection of the CPA shall be made by the Auditor-Controller, with the approval of the Board of Supervisors.

19. **Performance Standards**

The investment portfolio shall be designed with the objective of earning a rate of return throughout budgetary cycles, corresponding with the investment risk constraints and the cash flow needs of the Pool.

20. **Reporting**

In accordance with Gov. Code §53646, a quarterly report shall be prepared by the Treasurer no later than 30 days following the end of the quarterly reporting period. A copy of the report will be forwarded to the Auditor-Controller and to the Board for review.

The quarterly report shall include:

20.1 A detailed listing of securities held at the end of the quarter grouped by investment type delineated as follows: type of investment, issuer, date of maturity, par value, book value and market value

20.2 A statement of compliance with the Policy or an explanation of any variance

20.3 A statement of the Pool's ability to meet the expenditure requirements for the next six months or an explanation of why the Pool cannot meet the expenditure requirements.

As deemed appropriate, the Treasurer may issue additional statistical or narrative reports. A monthly transaction report will be submitted to the Board per Gov. Code § 53607.

21. **Investment Policy Adoption**

In accordance with Gov. Code §53646, the Policy shall be adopted by resolution of the Board. The Policy shall be reviewed annually by the Board and any modifications made thereto must be approved by the Board.

The Treasurer shall establish written procedures for the operation of the investment program consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Treasurer.

22. **Investment Pool Expenses**

As authorized under Gov. Code §27013, the actual administrative cost of investing, depositing, cash handling, and other management costs associated with the accounting of funds, the deposit of funds, the reconciling of accounts, the interest apportionment, and the investment of funds for the Pool will be apportioned among the depositors based on each entity's average daily cash balance. All costs are offset against the interest earned before the interest is apportioned.

23. **Withdrawals from the Investment Pool**

Pursuant to Gov. Code §27136, depositors who seek to withdraw funds for investing or depositing those funds outside the Pool shall first submit the request for withdrawal to the Treasurer in writing.

The Treasurer will honor all requests to withdraw funds for normal cash flow purposes that are approved by the Auditor-Controller at a one-dollar net asset value.

Any requests to withdraw funds for purposes other than cash flow, such as external investing, shall be subject to the consent of the Treasurer. In accordance with Gov. Code §27136 et seq. and §27133(h) et seq., such requests for withdrawals must first be made in writing to the Treasurer. These requests are subject to the Treasurer's consideration of the stability and predictability of the Pool.

Assessment of the effect of a proposed withdrawal on the stability and predictability of the investments in the Pool will be based on the following:

- Amount of withdrawal
- The remaining balance of the total Pool and the agency portion of the Pool
- Current market conditions
- Duration of withdrawal
- Effect on predicted cash flows
- A determination if there will be sufficient balances remaining to cover costs
- Adequate information has been supplied to the Treasurer in order to make a proper finding that other Pool participants will not be adversely affected.

23.1 Notifications to the Treasury: The cash management plan provides for adequate liquidity to cover day-to-day needs of Pool depositors. On occasion, departments have need of withdrawals that exceed those normally associated with operations. The Treasurer has determined that individual amounts equal to or exceeding $100,000 require special notification to allow for adjustments to the liquidity position of the portfolio. Written advance notification is required for each threshold amount as follows:

- Withdrawals of $100,000 - $9,999,999 = 2 days
- Withdrawals of $10,000,000 - $24,999,999 = 10 days
- Withdrawals exceeding $25,000,000 = 30 days

23.2 Release of funds: Treasury reserves the right to delay the release of funds, with regard to the cashflow needs of the County and its depositors. If disbursement is not made within a seven-day window, the request for funds process shall be restarted. Failure to adhere to these requirements may cause the Treasurer to refuse to honor the payment. If the Treasurer must liquidate investments in order to honor the release of funds, the office or department responsible for that release of funds will also be responsible for reimbursing the Pool all expenses associated with the liquidation, including, but not limited to lost interest income, withdrawal penalties, and associated fees.

23.3 Disclaimer of Liability: All funds withdrawn from the Pool for the purpose of investing or depositing such funds outside the Pool shall become the responsibility of the legislative body requesting the action. The Treasurer shall in no manner be held responsible or liable for withdrawn funds or investments purchased with said funds. The request of any legislative body, by resolution, authorizing the withdrawal of funds for deposit or investment outside the Pool must provide a disclaimer of liability. The Treasurer shall not honor any such withdrawal request if a disclaimer clause is not provided

In no event shall funds be withdrawn that, in the judgement of the Treasurer, will adversely affect the interest of the other participants in the Pool.

24. Apportioning Investment Pool Losses

Given the inherent risk of any investment, in the event of a loss, it will be recorded by apportioning the amount among the depositors based on each fund's investment earnings in the twelve-month period immediately prior to and including the month of recognition. If a subsequent recovery occurs, either partial or complete, the recovery will be distributed among the depositors in the same proportion as the original loss was apportioned.

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ATTACHMENT I – AUTHORIZED INVESTMENTS

Authorized Investments	Authorized by CA Gov Code	Maximum % of Portfolio	Purchase Restrictions	Maximum Maturity	Minimum Credit Requirement
U.S. Treasury Notes	53601(b)	100%	None	5 Years	Guaranteed by U.S. Government
U.S. Treasury Bonds	53601(b)	100%	None	5 Years	Guaranteed by U.S. Government
U.S. Treasury Bills	53601(b)	100%	None	5 Years	Guaranteed by U.S. Government
Cash Management Bills	53601(b)	100%	None	5 Years	Guaranteed by U.S. Government
U.S. Federal Agency or U.S. Government Sponsored Enterprise (GSE) obligations	53601(f),	100%	None	5 Years	Guaranteed by U.S. Government
Money Market Mutual Funds	53601(l)	20%	No more than 10% of portfolio with any one issuer*, must maintain consistent net asset value (NAV) of $1	Daily Liquidity	Rating category of AAA quality equivalent or better by two or more Nationally Recognized Statistical Ratings Organizations (NRSRO) or Advisor requirements
Public Investment Money Market Accounts (Collateralized)	53601(r) 57600	30%	No more than 20% of portfolio with any one issuer*	Daily Liquidity	Secured with Collateral
Certificates of Deposit, Non-negotiable	53630 et seq.	30%	No more than 5% with any one issuer*	5 Years	Insured
Collateralized Certificates of Deposit, Non-negotiable	53630 et seq	30%	No more than 5% with any one issuer*	5 Years	Secured with collateral
Negotiable Certificates of Deposit	53601(i)	30%	No more than 5% with any one issuer*	5 Years	Rating category of A-1, P-1, F-1 equivalent or better by a NRSRO
Bankers Acceptances	53601(g)	40%	No more than 5% with any one issuer*, Drawn on and accepted by a commercial bank	180 Days	Rating category of A-1, P-1, F-1 equivalent or better by a NRSRO
Domestic Commercial Paper	53601(h)	25%	No more than 10% with any one issuer*	270 Days	Rating category of A-1, P-1, F-1 equivalent or better by a NRSRO
Repurchase Agreement (REPO)	53601(j)	20%	No more than 5% with any one issuer*	1 Year	Secured with Collateral

Authorized Investments	Authorized by CA Gov Code	Maximum % of Portfolio	Purchase Restrictions	Maximum Maturity	Minimum Credit Requirement
Medium Term Corporate Notes	53601(k)	30%	No more than 10% with any one issuer*, Issued by corporations organized and operating within the United States, depository institutions licensed by the United States, or any state and operating within the United States	5 Years	Rating category of A equivalent or better
State and Local Government Bonds	53601 (a)(c)(d)(e)	20%	No more than 5% with any one issuer*, Issued by State and local governments in the United States	5 Years	Rating category of A equivalent or better by one NRSRO
Local Agency Investment Fund (LAIF)**	16429.1 (a)(b)(d)	100%	$75,000,000.00 Cap per State Treasurer	Daily Liquidity	Complies with CA Government Code
Deposit Placement Services	53601.8	30%	Individual deposit no more than can be Federally insured	5 Years	Insured
Joint Powers Authority(CAMP, CalTRUST)***	53601 (p)	100%	2 x LAIF	Daily Liquidity	Complies with CA Government Code
Registered California State Warrants, or Treasury Notes, or Bonds	53601(d)	100%	None	5 Years	Guaranteed by the State of California
Supranational Obligations – Washington dollar Denominated IBRD, IFC or IAD	53601(q)	30%	No more than 5% with any one issuer*	5 Years	Rated "AA" or better by an NRSRO

*Per issuer limitations apply at time of purchase of an investment.

** LAIF is a Local Government Investment Pool (LGIP) (sponsored and established by the state or local government) operating under GC §16429.1 and §16430, with investment policies and regulations that may differ from the County's.

*** CalTRUST and CAMP are Local Government Investment Pools as a Joint Powers Authority (JPA) (sponsored by several cities or counties joined together) operate under GC §53601 (p). Both JPA's invest in investments permitted by §53601 of Title 5, Division 2, Chapter 4 of the Government Code.

ATTACHMENT II – INVESTMENT TERMS

ACCRUED INTEREST: Coupon interest accumulated on a bond or note since the last interest payment or, for a new issue, from the dated date to the date of delivery.

AGENCY: Securities issued by government-sponsored corporations such as Federal Home Loan Banks (FHLB) or Federal Land Banks (FLB.) Agency securities are exempt from Securities and Exchange Commission (SEC) registration requirements.

AMORTIZATION: Accounting procedure that gradually reduces the cost value of a limited life or intangible asset through periodic charges to income. It is a common practice to amortize any premium over par value paid in the purchase of bond investments or any discount under par value recognized in the purchase of bond investments.

ASKED PRICE: The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

BANKER'S ACCEPTANCE (BA): Time draft drawn on and accepted by a bank [for up to 6 months], the customary means of effecting payment for merchandise sold in import-export transactions and a source of financing used extensively in international trade. These are time drafts in which a bank "accepts" as its financial responsibility to pay the principal at maturity even if the importer does not. In essence, these are bank obligations collateralized by goods being shipped between an exporter and an importer. With the credit strength of a bank behind it, the banker's acceptance usually qualifies as a MONEY MARKET instrument. The liability assumed by the bank is called its acceptance liability.

BANKER NOTE (BN): Similar to Commercial Paper (debt instrument issued by the Bank's holding company), but the Bank Note is issued directly by the Bank and not the holding company. BNs represent the highest senior debt issued by the bank, second only to Certificate of Deposit holders; highly negotiable and liquid; an allowable and accepted institutional investment form.

BASIS POINT: When a yield is expressed as 7.32%, the digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Example: 0.25% is twenty-five basis points. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

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 PRICE: The price at which a buyer offers to buy a security.

BOND: A long-term debt instrument in which the investor lends money to the bond issuer, who agrees to pay a stated rate of interest over a specified period. Very simply, a bond is a promissory note which is traded in the financial markets. The investor's position is that of lender.

BOND RATING: A rating selected from a scale which indicates the relative likelihood of default.

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most money market securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). These securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

BROKER: A broker brings buyers and sellers together and is compensated for his/her service.

CALL OPTION: The terms of the bond contract giving the issuer the right to redeem or call an outstanding issue of bonds prior to its stated date of maturity.

CALLABLE BONDS: Bonds which may be redeemed by the issuing company prior to the maturity date.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a capital asset.

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

CERTIFICATE OF DEPOSIT Placement Service (CDARS): A private CD placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage.

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement or securities pledged by a financial institution to secure deposits of public moneys. Repurchase agreements are required and must be executed with approved broker-dealers, collateralized with either: (1) U.S. Treasuries or Agencies with a market value of 102% for collateral marked to market daily; or (2) money market instruments which are on the approved list of the County and which meet the qualifications of the Policy with a market value of 102%.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the County. It includes five combined statements for each individual fund necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed.

COMMERCIAL PAPER (CP): Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted, although some are interest-bearing. Investors (actually lenders, since commercial paper is a form of debt) like the flexibility and safety of an instrument that is issued only by top-rated concerns and is nearly always backed by bank lines of credit. Both Moody and Standard & Poor assign ratings to commercial paper.

COUPON OR COUPON RATE: The rate at which a bond pays interest. Stated as a percentage of par and computed out to a dollar amount. Example: A note with a coupon of 6% pays $30,000 interest per million dollars of par every six months, or $60,000 annually.

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

CUSIP NUMBER: The Committee on Uniform Security Information Procedures (CUSIP) Number refers to a security's identification number assigned to each publicly traded security by the CUSIP Service Bureau operated by Standard & Poor's for the American Bankers Association. The CUSIP Number is a nine-character identifier unique to the issuer, the specific issue, and the maturity, if applicable (the first six characters identifying the issuer, the next two identifying the security and the last digit providing a check digit to validate the accuracy of the preceding CUSIP number).

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

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 (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers' acceptances, are known as discount securities. They sell at a discount from par and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DISCOUNT SECURITIES: Non-interest-bearing money market instruments that are issued at a discount and redeemed at maturity for the full face value of the investment.

DIVERSIFICATION: An investment strategy designed to spread the risk in a portfolio by dividing investments among different sectors, industries, and companies.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by size of that investment.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals.

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

FED FUNDS: The settlement is to be consummated with funds on deposit at the Federal Reserve Bank; and thus available the same day. All government securities are traded on Fed Funds; also referred to as "same day funds".

FEDERAL FUNDS RATE: Interest rate at which banks lend federal funds to each other.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks that lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies.

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 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.

FEDERAL OPEN MARKET COMMITTEE (FOMC): This committee sets 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: A U.S. centralized banking system which has supervisory powers over the 12 Federal Reserve banks and about 6,000 member banks.

FIXED-INCOME SECURITIES: Securities which return a fixed income over a specified period.

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, saving and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

LOCAL AGENCY: County, city, and county, including a charter city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

MARKET: Refers to the place, physical or electronic, that investment transactions take place. The New York Stock Exchange (NYSE) is a recognized exchange (stock market) with a physical location in New York. The Chicago Board of Trade (CBT) is a recognized exchange (commodities market) with a physical location in Chicago. The "over-the-counter" market is an electronic and phone system used to trade investments which are not traded on recognized exchanges. Bond and money market investments (fixed income securities) are traded on the "over-the-counter" market.

MARKET RISK: The risk that changes in overall market conditions or interest rate may adversely affect current market prices.

MARK-TO-MARKET: The market valuation for every security in a portfolio used in determining Net Asset Value (NAV).

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

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

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

MEDIUM TERM NOTE (MTN): Debt securities issued by a corporation or depository institution with a maturity ranging from nine months to five years. The term "medium-term notes" refers to the time it takes for an obligation to mature and includes other corporate debt securities originally issued for maturities longer than five years, but which have now fallen within the five year maturity range. MTNs issued by banks are also called "bank notes."

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

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invests in a variety of short-term money market instruments. The Net Asset Value (NAV) of these funds should remain at $1.00; however, it is not guaranteed.

MUNICIPAL DEBT: Issued by public entities to meet capital needs.

NATIONALLY RECOGNIZED RATING SERVICES: Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.) The primary rating agencies include Standard & Poor's Corporation; Moody's Investor Services, Inc.; Fitch Investors Service; Duff & Phelps Investment Service; Thompson Bank Watch and International Bank Credit Analyst.

NEGOTIABLE CERTIFICATE OF DEPOSIT (CD): Large-dollar-amount, short-term certificate of deposit. Such certificates are issued by large banks and bought mainly by corporations and institutional investors. They are payable either to the bearer or to the order of the depositor, and, being NEGOTIABLE, they enjoy an active SECONDARY MARKET, where they trade in round lots of $5 million.

NET ASSET VALUE (NAV): A per-share valuation of a mutual fund based on total assets minus total liabilities.

NON-CALLABLE: Bond that is exempt from any kind of redemption for a stated time. Also known as a Bullet Bond.

OFFER PRICE: The price asked by a seller of securities.

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 to influence the volume of money and credit in the economy.

PAR VALUE: The principal amount of a note or bond which must be paid at maturity. Par, also referred to as the "face amount" of a security, is the principal value stated on the face of the security. A par bond is one sold at a price of 100 percent of its principal amount.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PORTFOLIO: A group of securities held by an investor.

PREMIUM: The difference between the par value of a bond and the market value of the bond, when the market value is above par.

PRICE: Price is the amount of monetary consideration required by a willing seller and a willing buyer to sell an investment on a particular date.

PRICE RISK: The risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

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.

PRIME RATE: The interest rate banks charge the biggest borrowers with the best credit ratings.

PRINCIPAL: The face value or par value of an investment.

PRUDENT PERSON RULE: A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

PSA MASTER REPURCHASE AGREEMENT: A required written contract covering all future transactions between the authorized bank and the Treasurer to repurchase agreements that establish each party's rights in the transactions (see Collateral & Repurchase Agreement).

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 commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

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

RECEIVABLE-BACKED SECURITIES: Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

RECEIVABLE PASS-THROUGH CERTIFICATE: A debt obligation that is backed by a portfolio of receivables, normally issued by a bank of financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivables portfolio.

REGISTERED STATE WARRANT: A short-term obligation of a state governmental body issued in anticipation of revenue.

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

REPURCHASE AGREEMENT (RP OR REPO): The purchase of securities, on a temporary basis, with the seller's simultaneous agreement to repurchase the securities later at a specified price that includes interest for the buyer's holding period. In essence, this is a collateralized investment whereby the security "buyer" lends the "seller" money for the period of the agreement.

REVENUE ANTICIPATION NOTES OR RANs: Notes issued for thirteen months or less which are used to finance cash flow in anticipation of future tax revenue. Used by agencies having cash flow gaps between revenues and expenses that requires short-term interim financing. Also see Tax Anticipation Notes (TANs) and Tax and Revenue Anticipation Notes (TRANs).

RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

SAFEKEEPING: The holding of securities in a segregated account by a custody agent or trustee. Transactions are escrowed through these accounts by the custody agent or trustee. Safekeeping services are typically provided by banks and other financial institutions.

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

SECURITIES & EXCHANGE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SETTLEMENT DATE: The date on which the purchase or sale of securities is executed. For example, in a purchase transaction, the day securities are physically delivered or wired to the buyer in exchange for cash is the settlement date.

SUPRANATIONALS: International institutions that provide development financing, advisory services and/or other financial services to their member countries to achieve overall goal of improving living standards through sustainable economic growth. Key features are Triple-A rated, 0% risk weighting with Basle II and III, Financial strength based on diversified, sovereign shareholders, conservative risk management, quality loan portfolio (preferred creditor status), substantial liquidity and consistent profitability strong capitalization.

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

TAX ANTICIPATION NOTES OR TANs: Notes issued for thirteen months or less which are used to finance cash flow in anticipation of future tax revenue. Commonly used by California local governments whose primary revenues are property taxes which are collected in December and April. Also see Revenue Anticipation Notes (RANs) and Tax and Revenue Anticipation Notes (TRANs).

TAX AND REVENUE ANTICIPATION NOTES OR TRANs: Notes issued for thirteen months or less. They are a combination of Tax Anticipation Notes (TANs) and Revenue Anticipation Notes (RANs). Also see Revenue Anticipation Notes (RANs) and Tax Anticipation Notes (TANs).

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

TREASURIES: Securities issued by the U.S. Treasury and backed by the FULL FAITH & CREDIT of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds. The income from Treasury securities is exempt from state and local, but not federal taxes.

TREASURY BILLS: Non-interest-bearing discount securities with maturities under one year issued by the U.S. Treasury to finance the national debt.

TREASURY NOTES (USTN): Interest-bearing obligations issued by the U.S. Treasury with maturities ranging from two to ten years from the date of issue.

TREASURY BONDS: Interest-bearing obligations issued by the U.S. Treasury with maturities that range from ten to thirty years from date of issue.

YIELD: The annual rate of return on a debt investment computed as though held to maturity expressed in %.

YIELD TO MATURITY (YTM): The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.

ZERO-COUPON BONDS/U.S. TREASURY STRIPS: A bond which represents ownership of a single coupon or principal payment due on a U.S. Treasury bond. "Zero" or "strips" mature at face value at a specified date in the future and make no payments until that date. They always sell at a discount from face value.