Department of Financial Services

INVESTMENT POLICY

City of Hollywood Investment Policy

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DEPARTMENT OF FINANCIAL SERVICES

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Table of Contents

Investment Policy
City of Hollywood, Florida

I. PURPOSE

The purpose of this policy is to set forth the investment objectives and parameters for the management of public funds of the City of Hollywood, Florida (hereinafter "City"). These policies are designed to safeguard the City's funds, provide for the availability of operating and capital funds when needed, and promote an investment return competitive with comparable funds and financial market indices.

II. SCOPE

In accordance with Section 218.415, Florida Statutes, this investment policy applies to all cash and investments held or controlled by the City with the exception of the City's three employee pension funds, all its deferred compensation plans and funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds. Additionally, any future revenues which have statutory investment requirements conflicting with this Investment Policy, and funds held by state agencies, are not subject to the provisions of this policy.

III. INVESTMENT OBJECTIVES

Safety of Principal

The foremost objective of the City's investment program is to ensure the safety of principal. Investment transactions shall seek to avoid capital losses, whether they are from securities defaults (credit risk) or erosion of market value (interest rate rise). To attain this objective, investments are limited to securities that are of very high quality and considered safe and conservative. Section XII of this policy specifies authorized investments and portfolio composition and establishes terms and conditions to ensure the safety of principal. Items to consider in this regard are:

Interest Rate Risk
The City will minimize the interest rate risk, which is the risk that the value of the securities in the investment portfolio will fall due to changes in interest rates, by:

- Structuring the portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity.
- Investing operating funds in primarily short-term securities, money market mutual funds, or similar investment pools and limiting the weighted average maturity (Macaulay duration) of the portfolio.
- Limiting the price sensitivity (modified or effective duration) of the investments in the portfolio.

Credit Risk
The City will limit credit risk, which is the risk of loss due to default by the issuer, by:

- Limiting investments to investment-grade securities as rated by Moody's, Standard & Poor's, Fitch or other nationally recognized rating agency in the United States.
- Diversifying the investment portfolio to reduce the impact of potential losses from any one type of security, or an individual issuer or backer.

Maintenance of Liquidity

The City's investment portfolio shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. Periodic cash flow analyses will be completed in order to ensure that the portfolios are positioned to provide sufficient liquidity. By maintaining liquidity, the portfolio will inherently reinforce the safety of principal requirement. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (known as static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist primarily of securities with an active secondary or resale market (known as dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or similar investment pools which offer same-day liquidity for short-term funds. To facilitate this, the portfolio may be partitioned into a Short-term Portfolio focusing on cash equivalent or other investments with maturities of less than one year, and a Long-term Portfolio focusing on higher yielding investments having maturities of greater than one year. Section X of this policy establishes specific maturity and liquidity requirements to meet this objective.

Return on Investment

The City's investment portfolio shall be designed with the objective of maximizing a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. The City shall maintain the level of investment of all idle bank balances as close to 100% as possible and shall actively manage its investment portfolio to the greatest extent possible within the constraints of safety and liquidity to take advantage of prevailing or anticipated market conditions. Return on investment is of tertiary importance compared to the safety and liquidity objectives described above. The core of investments shall be limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities will generally be held until maturity with the following exceptions:

- A security with declining credit or a downgrade below the rating requirements stated later in this Policy may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield or target duration in the portfolio.
- Liquidity needs of the portfolio require that a security be sold.

IV. DELEGATION OF AUTHORITY

No person may engage in an investment transaction except as authorized under the terms of this investment policy. In accordance with Chapter 38.76 (D)(9) of the City of Hollywood Code of Ordinances, the responsibility for providing oversight and direction in regard to the management of the investment program resides with the City's Director of Financial Services (hereinafter "Director"). The City Treasurer is designated as the Investment Officer of the City and is responsible for investment decisions and activities, under the direction of the Director and the City Manager. The day-to-day administration of the cash management program is handled by the City Treasurer. The Director shall hold primary responsibility for assuring compliance with the City's Investment Policy. The Director and City Manager at any time may reassign the designation of Investment Officer to another competent employee upon written notification. The City Treasurer (hereinafter "Investment Officer") is authorized to make investments under this policy as required or appropriate. The City may employ an Investment Manager by written contract to assist in managing City funds. Such Investment Manager must be registered under the Investment Advisors Act of 1940. The Director shall establish written procedures consisting of a system of internal accounting and administrative controls to regulate the City's investment activities.

V. STANDARDS OF PRUDENCE

The "Prudent Person" standard shall be applied in the context of managing the overall investment program. The Investment Officer acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectation are reported to the City Manager in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. The "Prudent Person" rule states the following:

> Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment.

VI. ETHICS AND CONFLICTS OF INTEREST

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. Also, employees involved in the investment process shall disclose to the City Manager any material financial interests in financial institutions that conduct business with the City, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the City's investment program. Employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

VII. INTERNAL CONTROLS AND INVESTMENT PROCEDURES

The Director shall establish a system of internal controls and operational procedures with regard to the City's investment program in writing and be made a part of the City's public funds management program. The internal controls should be designed to protect the City's assets and prevent the loss of funds which might arise from fraud, embezzlement, error, mismanagement or misrepresentation by City employees or by third parties. The written procedures should include at a minimum reference to safekeeping, repurchase agreements, separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts, collateral/depository agreements, and "delivery-vs-payment" procedures.

The Director shall assign competent staff, excluding the Investment Officer, in the Financial Services Department to reconcile the City's general depositor account on a monthly basis by comparing the City's general ledger with the applicable bank statements. The reconciliation would reveal any difference in investment transaction recording and the actual movement of funds.

The Director shall assign competent accounting staff, excluding the Investment Officer, to reconcile investments reflected in the custodial statements with the City's records. The reconciliation will be reviewed each month by the Division Director of General Accounting.

Independent auditors as a normal part of the annual financial audit or any other audit initiated by the City shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

VIII. CONTINUING EDUCATION

In accordance with § 218.415(14), Florida Statutes, the Director, the Investment Officer and appropriate staff shall annually complete 8 hours of continuing education in subjects or courses of study related to investment practices and products.

IX. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

The Director shall establish and maintain a list of approved broker/dealers and financial institutions and provide them with a copy of this investment policy. The City or its Investment Manager, if any, will only buy and sell securities using broker/dealers registered with the Federal Reserve Bank of New York's list of "Primary Government Securities Dealers" and from banks and savings and loan associations (including their wholly owned subsidiaries or their parent companies' wholly owned subsidiaries established to provide institutional brokerage services) that are included on the list of "qualified public depositories" issued by the State of Florida. These entities must qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). No depository will operate without at least $100 million in collateral or insurance coverage on the City's accounts. The Investment Officer or the Investment Manager, if any, will be responsible for operating within the guidelines of this policy and will be responsible for the selection of "Primary Government Securities Dealers".

X. MATURITY AND LIQUIDITY REQUIREMENTS

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements.

A. Maturity Guidelines

Securities purchased by or on behalf of the City shall have a final maturity of five (5) years or less from the date of purchase. The maturities of the underlying securities of a repurchase agreement will follow the requirements of the Master Repurchase Agreement.

B. Liquidity Requirements

In order to have an available source of funds to meet unexpected cash requirements, a minimum of the equivalent of two months of projected payroll and operating expenditures, will be invested with cash or cash equivalents or vehicles that provide daily liquidity. The balance of the City's funds will be available for investment according to the guidelines incorporated within this policy. The City shall purchase only investments with an active secondary market, with the exception of non-negotiable Certificates of Deposit and other time and savings deposits.

XI. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

After the Investment Officer or the Investment Manager has determined the approximate maturity date, issuer, type, and any other security characteristics based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) qualified banks and/or approved broker/dealers must be contacted and asked to provide bids/offers in writing on securities in question. Bids/offers will be held in confidence until the bid/offer deemed to best meet the investment objectives is determined and selected.

From time to time, various government agencies announce the issue of new securities to the financial markets. Since all new issues bought in the primary market ("at window") are sold at par or at a discount to par set by the issuing agency, the competitive bidding process offers no benefit. If the new, "To Be Announced" security meets the portfolio diversification and maturity requirements set forth in the Investment Policy, the City may, at the discretion of the Investment Officer, place the investment with the broker/dealer or financial institution that initiated the investment opportunity, provided that the broker/dealer or financial institution is on the approved list.

The broker/dealer or financial institution offering the most favorable yield for the specific security type with the desired maturity date will be selected. The broker/dealers and financial institutions to be solicited will be rotated from the approved list, although if one or more specific dealers or institutions have proven to be particularly competitive, they may be contacted for bids/offers on a more frequent basis. All bids/offers for a particular purchase or sale shall be documented and the winning bid clearly identified for auditing purposes.

If obtaining a bid/offer is not feasible and appropriate, securities may be purchased utilizing the comparison to current market price method on an exception basis. Acceptable current market price providers include, but are not limited to:

- Bloomberg Information Systems,
- Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing,
- Daily market pricing provided by the City's custodian or their correspondent institutions.

The Investment Officer or the Investment Manager shall utilize the competitive bid process to select the securities to be purchased or sold. Selection by comparison to a current market price, as indicated above, shall only be utilized when, in judgment of the Investment Officer or the Investment Manager, competitive bidding would inhibit the selection process.

This method may only be used:

- When time constraints due to unusual circumstances preclude the use of the competitive bidding process,
- When no active market exists for the issue being traded due to the age or depth of the issue,
- When a security is unique to a single dealer, for example, a private placement.

Overnight sweep repurchase agreements will not be bid, but may be placed with the City's depository bank relating to the demand account for which the repurchase agreement was purchased.

The Director is authorized to seek commission recapture services and to select the institution proposing the most responsive proposal resulting from contacting a minimum of three (3) qualified institutions. Transactions subject to commission recapture will be subject to normal purchasing procedures as stated in this section and with particular emphasis on following best execution practices.

XII. AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION

Investments should be made subject to the City's cash flow needs and such cash flows are subject to revisions as market conditions and the City's needs change. However, when the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, the Investment Officer may sell the investment at the then-prevailing market price.

The City shall actively manage its investment portfolio to the greatest extent possible within the constraints of safety and liquidity to take advantage of prevailing or anticipated market conditions. The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the City.

Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the Director. The percentage allocation requirements for investment types and issuers are calculated based on the original cost of each investment. The maximum percentage allocation requirements and any minimum ratings requirements apply at the time the investment is made. Investments not listed in this policy are prohibited. In cases where a minimum rating from rating agencies is called for and where one of the ratings is at a lower grade than a second, the lower rating shall govern.

A. United States Government Securities

1. Purchase Authorization

The Investment Officer may invest in negotiable, full faith and credit, direct obligations of the United States Government. Such securities will include:

Cash Management Bills
Treasury Securities – State and Local Government Series ("SLGS")
Treasury Bills
Treasury Bonds
Treasury Notes
Treasury Strips
Treasury TIPS

2. Portfolio Composition

A maximum of 50% of the portfolio market value may be invested in the United States Government Securities.

3. Maturity Limitations

The maximum length to maturity of any direct investment in the United States Government Securities is five (5) years from the date of purchase.

B. United States Government Agencies

1. Purchase Authorization

The Investment Officer may invest in bonds, debentures, or notes issued or guaranteed by United States Government agencies, provided such obligations are backed by the full faith and credit of the United States Government and have an active secondary market. Such securities will include:

United States Export – Import Bank
-Direct obligations or fully guaranteed certificates of beneficial ownership
Federal Housing Administration
Government National Mortgage Association (GNMA)
Small Business Administration
United States Department of Housing and Urban Development

2. Portfolio Composition

A maximum of 50% of the portfolio market value may be invested in United States Government agencies.

3. Maturity Limitations

The maximum length to maturity for an investment in any United States Government agency security is five (5) years from the date of purchase.

C. Federal Instrumentalities (United States Government Sponsored Enterprises)

1. Purchase Authorization

The Investment Officer may invest in bonds, debentures, or notes issued or guaranteed by United States Government sponsored agencies (Federal Instrumentalities) which do not carry the full faith and credit of the U.S. Government limited to the following:

Federal Farm Credit Bank (FFCB)
Federal Home Loan Bank or its City banks (FHLB)
Federal National Mortgage Association (FNMA)
Federal Home Loan Mortgage Corporation (Freddie-Macs)
including Federal Home Loan Mortgage Corporation participation certificates

2. Portfolio Composition

A maximum of 40% of the portfolio market value may be invested in Federal Instrumentalities.

3. Limits on Individual Issuers

A maximum of 10% of the portfolio market value may be invested in any one issuer.

4. Maturity Limitations

The maximum length to maturity for an investment in any Federal Instrumentality security is five (5) years from the date of purchase.

D. Interest Bearing Certificates of Deposit, Demand Deposit Accounts, Saving Accounts, NOW Checking Accounts or Money Market Accounts

1. Purchase Authorization

The Investment Officer may deposit public funds in non-negotiable interest bearing certificates of deposit, (including through the Certificate of Deposit Account Registry Service, or CDARS), demand deposit accounts, savings accounts, NOW checking accounts and money market accounts in banks organized under the laws of this state and/or in national banks organized under the laws of the United States and doing business and situated in the State of Florida, provided that such banks are qualified public depositories and any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes.

2. Portfolio Composition

A maximum of 75% of the portfolio market value may be invested in non-negotiable interest bearing deposits secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes, as described herein.

3. Limits on Individual Issuers

A maximum of 20% of the portfolio market value may be deposited with any one financial institution, except for deposits with the City's primary treasury depository institution or deposits in the CDARS program.

4. The maximum maturity on any deposit shall be no greater than five (5) years from the date of purchase.

E. Repurchase Agreements

1. Purchase Authorization

a. The Investment Officer may enter into repurchase agreements composed of only those investments authorized in Section XII. B, C, and D. All financial institutions are required to sign the City's Master Repurchase Agreement prior to the execution of a repurchase agreement transaction. The agreement must specify that it is governed by the laws of the State of Florida, and it must be approved as to form and legal sufficiency by the City Attorney.

b. A third party custodian with whom the City has a current custodial agreement shall hold the collateral for all repurchase agreements with a term longer than one (1) business day. Overnight repurchase agreement collateral for the City's "Sweep Accounts", if any, shall be held at the City's custodial or safekeeping institution. A clearly marked receipt that shows evidence of ownership must be supplied to the Investment Officer and retained for all repurchase agreements that are not overnight sweep accounts.

c. Securities authorized for collateral must have maturities under ten (10) years and have market value for the principal and accrued interest equal to at least 102 percent of the value and for the term of the repurchase agreement. Immaterial short-term deviations from 102 percent requirement are permissible only upon the approval of the Investment Officer.

2. Portfolio Composition

A maximum of 20% of the portfolio market value may be invested in repurchase agreements.

3. Limits on Individual Issuers

A maximum of 10% of the portfolio market value may be included in a repurchase agreement with any one institution.

4. Limits on Maturities

The maximum length to maturity of any repurchase agreement is 90 days from the date of purchase.

F. Commercial Paper

1. Purchase Authorization

The Investment Officer may invest in commercial paper of any United States company that is rated, at the time of purchase, "Prime-1" by Moody's and "A-1+" by Standard & Poor's (highest grade commercial paper), with preference for those with backup lines of credit to support their commercial paper programs. These lines of credit are in place to guard against the unlikely event that the issuer is unable to redeem or rollover a maturing security.

2. Portfolio Composition

A maximum of 20% of the portfolio market value may be directly invested in prime commercial paper.

3. Limits on Individual Issuers

A maximum of 5% of the portfolio market value may be invested with any one issuer.

4. Maturity Limitations

The maximum length to maturity for prime commercial paper shall be 270 days from the date of purchase.

G. Registered Investment Companies (Money Market Mutual Funds)

1. Investment Authorization

The Investment Officer may invest in shares in open-end and no-load money market mutual funds provided such funds are registered under the Federal Investment Company Act of 1940 and operate in accordance with 17 C.F.R. § 270.2a-7, which stipulates that money market funds must have an average weighted maturity of 90 days or less. Must be rated in the highest tier by a nationally recognized rating agency and whose portfolios consist of only dollar denominated securities.

2. Portfolio Composition

A maximum of 20% of the portfolio market value may be invested in money market funds.

3. Limits of Individual Issuers

A maximum of 10% of the portfolio market value may be invested with any one money market fund.

H. Municipal Bonds

1. Investment Authorization

The City may invest in state and/or local government taxable and/or tax-exempt debt, general obligation and/or revenue bonds. Must be rated at least “AA” from Standard and Poor’s and “Aa” from Moody’s or comparable rating from Fitch.

2. Portfolio Composition

A maximum of 20% of the portfolio market value may be invested in obligations of state and local governments.

3. Limits on Individual Issuers

A maximum of 5% of the portfolio market value may be invested in any one issuer.

4. The maximum maturity on any obligation shall be no greater than five (5) years from the date of purchase.

I. Intergovernmental Investment Pool

1. Investment Authorization

The City may invest in intergovernmental investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in Section 163.01, Florida Statutes and provided that said funds contain no derivatives and share value can never be less than $1.

2. Portfolio Composition

A maximum of 20% of available funds may be invested in intergovernmental investment pools.

3. Due Diligence Requirements

A thorough review of any investment pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed by the Investment Officer that will contain a list of questions that covers the major aspects of any investment pool/fund.

J. The Florida Local Government Surplus Funds Trust Fund (Florida Prime/SBA)

1. Investment Authorization

The Investment Officer may invest in the Florida Prime.

2. Portfolio Composition

A maximum of 20% of available funds may be invested in the Florida Prime.

XIII. UNAUTHORIZED INVESTMENTS

Investments in any derivative products or the use of reverse repurchase agreements are prohibited. A “derivative” is defined as a financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or indices or asset values.

All other investments not specifically stated under “Allowable Investments” are prohibited. This includes common or preferred stock, convertible or corporate bonds, commodities, options, futures, derivatives, limited partnerships, GICs, negotiable Certificates of Deposits, uninsured deposits, any mortgage-backed securities, mortgage pass through certificates, collateralized mortgage obligations, investments that are denominated in any currency but U.S. dollars, adjustable rate securities, bond swaps, obligations of the Student Loan Market Association and supra-national institutions such as World Bank or International Monetary Fund (“IMF”).

XIV. PERFORMANCE MEASUREMENTS

In order to assist in the evaluation of the portfolio’s performance, the City’s investment performance goal is to regularly exceed the average rate of return on 90-day U.S. Treasury Bills, or the average Federal Funds rate for the period, whichever is higher. These two indices are considered benchmarks for riskless investment transactions and are a minimum standard for the portfolio’s overall rate of return. The Investment Officer shall seek to obtain returns over and above this minimum standard, consistent with the City’s safety and liquidity objectives.

XV. ACCOUNTING AND REPORTING

Investments will be carried at book value and marked to market value. Gains or losses from investments will be credited or charged to investment income at the time of sale. Premiums or discounts on securities may be amortized over the life of the securities. The City shall comply with Generally Accepted Accounting Principles ("GAAP") and Government Accounting Standard Board ("GASB") standards.

The Director and/or Investment Officer shall prepare a Quarterly Investment Report which shall be presented to the City Manager and the City Commission. The quarterly investment report is available to the public upon request. Schedules in the quarterly report will include the following:

A. A listing of investments by type, book value, and market value as of the report date as well as portfolio activity during the period.

B. Weight, by percentage, of each security type within the portfolio.

C. Investment balance at end of quarter.

D. Income earned for the quarter and year-to-date.

E. Comparison of quarterly and calendar year-to-date performance to authorized performance benchmarks.

F. Weighted average maturity of the portfolio.

The Investment Officer shall report any occurrences of non-compliance with this policy in writing to the Director as soon as reasonably possible once he or she is aware of the occurrence.

XVI. THIRD-PARTY CUSTODIAL AGREEMENTS

Securities, with the exception of certificates of deposits and overnight repurchase agreements (one business day), shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by, the City should be properly designated as an asset of the City. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Section 658.12, Florida Statutes, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida. Certificates of deposits will be placed in the provider's safekeeping department for the term of the deposit.

The custodian shall accept transaction instructions only from those persons who have been duly authorized by the Director and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, from safekeeping, shall be permitted unless by such a duly authorized person.

The custodian shall provide the Director with safekeeping receipts that provide detail information on the securities held by the custodian. In addition, the custodian shall report at least quarterly and the Investment Officer shall verify the reports. Settlement transactions between a broker/dealer and the custodian on behalf of the City that involve a settlement of investments purchased or sold by the Investment Officer or Investment Manager must be made on a "delivery vs. payment" basis to ensure that the custodian will have the security or money, as appropriate, in hand on behalf of the City at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

XVII. MUNICIPAL ADVISOR RULE

Brokers and dealers who execute investment trades for the City of Hollywood portfolio typically require a form to be signed stating they are not acting in a Municipal Advisor Role. The Director shall be authorized to sign these forms for the City's authorized broker/dealers.

XVIII. RISK DIVERSIFICATION

There are risks inherent in investing; however, every investment portfolio should include a specific diversification strategy to eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer or class of securities. The investments shall be diversified by:

A. Limiting investments to avoid over-concentration in securities from a specific issuer or of a specific type.

B. Staggering investment maturities to avoid undue concentration in a specific maturity sector.

C. Limiting the duration (price sensitivity and maturity) of the investment portfolio.

D. Investing in only high-grade securities with low credit risk.

E. Maintaining a portion of the portfolio in readily available funds such as state investment pools, money market mutual funds, or overnight repurchase agreements.

XIX. INVESTMENT POLICY ADOPTION AND AMENDMENTS

This Investment Policy is official upon its adoption by the City Commission. The Director shall prepare any proposed amendments to the Investment Policy, and submit them to the City Manager and the City Commission for review and approval.

GLOSSARY OF KEY INVESTMENT TERMS

Accrued Interest. Interest earned but which has not yet been paid or received.

Agency. See "Federal Agency Securities."

Ask Price. Price at which a broker/dealer offers to sell a security to an investor. Also known as "offered price."

Asset Backed Securities (ABS). A fixed-income security backed by notes or receivables against assets other than real estate. Generally issued by special purpose companies that "own" the assets and issue the ABS. Examples include securities backed by auto loans, credit card receivables, home equity loans, manufactured housing loans, farm equipment loans and aircraft leases.

Bankers' Acceptance (BA's). A draft or bill of exchange drawn upon and accepted by a bank. Frequently used to finance shipping of international goods. Used as a short-term credit instrument, bankers' acceptances are traded at a discount from face value as a money market instrument in the secondary market on the basis of the credit quality of the guaranteeing bank.

Basis Point. One hundredth of one percent, or 0.01%. Thus 1% equals 100 basis points.

Bearer Security. A security whose ownership is determined by the holder of the physical security. Typically, there is no registration on the issuer's books. Title to bearer securities is transferred by delivery of the physical security or certificate. Also known as "physical securities."

Benchmark Bills: In November 1999, FNMA introduced its Benchmark Bills program, a short-term debt securities issuance program to supplement its existing discount note program. The program includes a schedule of larger, weekly issues in three- and sixth-month maturities and biweekly issues in one-year for Benchmark Bills. Each issue is brought to market via a Dutch (single price) auction. FNMA conducts a weekly auction for each Benchmark Bill maturity and accepts both competitive and non-competitive bids through a web based auction system. This program is in addition to the variety of other discount note maturities, with rates posted on a daily basis, which FNMA offers. FNMA's Benchmark Bills are unsecured general obligations that are issued in book-entry form through the Federal Reserve Banks. There are no periodic payments of interest on Benchmark Bills, which are sold at a discount from the principal amount and payable at par at maturity. Issues under the Benchmark program constitute the same credit standing as other FNMA discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

Benchmark Notes/Bonds: Benchmark Notes and Bonds are a series of FNMA "bullet" maturities (non-callable) issued according to a pre-announced calendar. Under its Benchmark Notes/Bonds program, 2, 3, 5, 10 and 30-year maturities are issued each quarter. Each Benchmark Notes new issue has a minimum size of $4 billion, 30-year new issues having a minimum size of $1 billion, with reopenings based on investor demand to further enhance liquidity. The amount of non-callable issuance has allowed FNMA to build a yield curve in Benchmark Notes and Bonds in maturities ranging from 2 to 30 years. The liquidity emanating from these large size issues has facilitated favorable financing opportunities through the development of a liquid overnight and term repo market. Issues under the Benchmark program constitute the same credit standing as other FNMA issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Benchmark. A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance and duration of the actual portfolio's investments.

Bid Price. Price at which a broker/dealer offers to purchase a security from an investor.

Bond Market Association (BMA). The bond market trade association representing the largest securities markets in the world. In addition to publishing a Master Repurchase Agreement, widely accepted as the industry standard document for Repurchase Agreements, the BMA also recommends bond market closures and early closes due to holidays.

Bond. Financial obligation for which the issuer promises to pay the bondholder (the purchaser or owner of the bond) a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Entry Securities. Securities that are recorded in a customer's account electronically through one of the financial markets electronic delivery and custody systems, such as the Fed Securities wire, DTC and PTC (as opposed to bearer or physical securities). The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors' concerns about the certificates themselves. The vast majority of securities are now book entry securities.

Book Value. The value at which a debt security is reflected on the holder's records at any point in time. Book value is also called "amortized cost" as it represents the original cost of an investment adjusted for amortization of premium or accretion of discount. Also called "carrying value." Book value can vary over time as an investment approaches maturity and differs from "market value" in that it is not affected by changes in market interest rates.

Broker/Dealer. A person or firm transacting securities business with customers. A "broker" acts as an agent between buyers and sellers, and receives a commission for these services. A "dealer" buys and sells financial assets from its own portfolio. A dealer takes risk by owning inventory of securities, whereas a broker merely matches up buyers and sellers. See also "Primary Dealer."

Bullet Notes/Bonds. Notes or bonds that have a single maturity date and are non-callable.

Call Date. Date at which a call option may be or is exercised.

Call Option. The right, but not the obligation, of an issuer of a security to redeem a security at a specified value and at a specified date or dates prior to its stated maturity date. Most fixed-income calls are a par, but can be at any previously established price. Securities issued with a call provision typically carry a higher yield than similar securities issued without a call feature. There are three primary types of call options (1) European - one-time calls, (2) Bermudan - periodically on a predetermined schedule (quarterly, semi-annual, annual), and (3) American - continuously callable at any time on or after the call date. There is usually a notice period of at least 5 business days prior to a call date.

Callable Bonds/Notes. Securities, which contain an imbedded call option giving the issuer, has the right to redeem the securities prior to maturity at a predetermined price and time.

Certificate of Deposit (CD). Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity). Can be as long as 10 years to maturity, but most CDs purchased by public agencies are one year and under.

Collateral. Investment securities or other property that a borrower pledges to secure repayment of a loan, secure deposits of public monies, or provide security for a repurchase agreement.

Collateralized Mortgage Obligation (CMO). A security that pools together mortgages and separates them into short, medium, and long-term positions (called tranches). Tranches are set up to pay different rates of interest depending upon their maturity. Interest payments are usually paid monthly. In "plain vanilla" CMOs, principal is not paid on a tranche until all shorter tranches have been paid off. This system provides interest and principal in a more predictable manner. A single pool of mortgages can be carved up into numerous tranches each with its own payment and risk characteristics.

Commercial Paper. Short term unsecured promissory note issued by a company or financial institution. Issued at a discount and matures for par or face value. Usually a maximum maturity of 270 days, and given a short-term debt rating by one or more NRSROs.

Corporate Note. A debt instrument issued by a corporation with a maturity of greater than one year and less than ten years.

Counterparty. The other party in a two party financial transaction. "Counterparty risk" refers to the risk that the other party to a transaction will fail in its related obligations. For example, the bank or broker/dealer in a repurchase agreement.

Coupon Rate. Annual rate of interest on a debt security, expressed as a percentage of the bond's face value.

Current Yield. Annual rate of return on a bond based on its price. Calculated as (coupon rate / price), but does not accurately reflect a bond's true yield level.

Custody. Safekeeping services offered by a bank, financial institution or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement and market values.

Delivery Versus Payment (DVP). Settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Fed Securities Wire system and DTC, are done DVP as a protection for both the buyer and seller of securities.

Depository Trust Company (DTC). A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs and BAs clear through DTC.

Derivative. A financial instrument whose value is based on or determined by another security, financial instrument or index.

Designated Bond. FFCB's regularly issued, liquid, non-callable securities that generally have a 2 or 3 year original maturity. New issues of Designated Bonds are $1 billion or larger. Reopenings of existing Designated Bond issues are generally a minimum of $100 million. Designated Bonds are offered through a syndicate of two to six dealers. Twice each month the Funding Corporation announces its intention to issue a new Designated Bond, reopen an existing issue, or to not issue or reopen a Designated Bond. Issues under the Designated Bond program constitute the same credit standing as other FFCB issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Discount Notes. Unsecured general obligations issued by Federal Agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year. Very large primary (new issue) and secondary markets.

Discount Rate. Rate charged by the system of Federal Reserve Banks on overnight loans to member banks. Changes to this rate are administered by the Federal Reserve and closely mirror changes to the "fed funds rate."

Discount Securities. Non-interest bearing money market instruments that are issued at discount and redeemed at maturity for full face value. Examples include U.S Treasury Bills, Federal Agency Discount Notes, Bankers' Acceptances and Commercial Paper.

Discount. The amount by which a bond or other financial instrument sells below its face value. See also "Premium."

Diversification. Dividing investment funds among a variety of security types, maturities, industries and issuers offering potentially independent returns.

Dollar Price. A bond's cost expressed as a percentage of its face value. For example, a bond quoted at a dollar price of 95 ½, would have a principal cost of $955 per $1,000 of face value.

Duff & Phelps. One of several NRSROs that provide credit ratings on corporate and bank debt issues.

Duration. The weighted average maturity of a security's or portfolio's cash flows, where the present values of the cash flows serve as the weights. The greater the duration of a security/portfolio, the greater its percentage price volatility with respect to changes in interest rates. Used as a measure of risk and a key tool for managing a portfolio versus a benchmark and for hedging risk. There are also different kinds of duration used for different purposes (e.g. MacAuley Duration – a measure of the weighted average term to maturity of the cash flows of a fixed income asset or portfolio, Modified Duration – a common gauge of the price sensitivity of a fixed income asset or portfolio to a change in interest rates).

Fannie Mae. See "Federal National Mortgage Association."

Fed Money Wire. A computerized communications system that connects the Federal Reserve System with its member banks, certain U. S. Treasury offices, and the Washington D.C. office of the Commodity Credit Corporation. The Fed Money Wire is the book entry system used to transfer cash balances between banks for themselves and for customer accounts.

Fed Securities Wire. A computerized communications system that facilitates book entry transfer of securities between banks, brokers and customer accounts. Used primary for settlement of U.S. Treasury and Federal Agency securities.

Fed. See "Federal Reserve System."

Federal Agency Security. A debt instrument issued by one of the federal agencies. Federal agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

Federal Agency. Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets. The largest Federal Agencies are GNMA, FNMA, FHLMC, FHLB, FFCB, SLMA, and TVA.

Federal Deposit Insurance Corporation (FDIC). Federal agency that insures deposits at commercial banks, currently to a limit of $100,000 per depositor per bank.

Federal Farm Credit Bank (FFCB). One of the large Federal Agencies. A Government Sponsored Enterprise (GS) system that is a network of cooperatively-owned lending institutions that provides credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm-affiliated businesses. Consists of the consolidated operations of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks. Frequent issuer of discount notes, agency notes and callable agency securities. FFCB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and agricultural industry. Also issues notes under its “designated note” program.

Federal Funds (Fed Funds). Funds placed in Federal Reserve Banks by depository institutions in excess of current reserve requirements, and frequently loaned or borrowed on an overnight basis between depository institutions.

Federal Funds Rate (Fed Funds Rate). The interest rate charged by a depository institution lending Federal Funds to another depository institution. The Federal Reserve influences this rate by establishing a "target" Fed Funds rate associated with the Fed's management of monetary policy.

Federal Home Loan Bank System (FHLB). One of the large Federal Agencies. A Government Sponsored Enterprise (GSE) system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its “global note” and “TAP” programs.

Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac"). One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages and participation interests financed by the sale of debt and guaranteed mortgage backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its “reference note” program.

Federal National Mortgage Association (FNMA or "Fannie Mae"). One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "benchmark note" program.

Federal Reserve Bank. One of the 12 distinct banks of the Federal Reserve System.

Federal Reserve System (the Fed). The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Fed Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven member Board of Governors known as the "Federal Reserve Board" and headed by its Chairman.

Fiscal Agent/Paying Agent. A bank or trust company that acts, under a trust agreement with a corporation or municipality, in the capacity of general treasurer. The agent performs such duties as making coupon payments, paying rents, redeeming bonds, and handling taxes relating to the issuance of bonds.

Fitch Investors Service, Inc. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Floating Rate Security (FRN or "floater"). A bond with an interest rate that is adjusted according to changes in an interest rate or index. Differs from variable-rate debt in that the changes to the rate take place immediately when the index changes, rather on a predetermined schedule. See also "Variable Rate Security."

Freddie Mac. See "Federal Home Loan Mortgage Corporation".

Ginnie Mae. See "Government National Mortgage Association".

Global Notes: Notes designed to qualify for immediate trading in both the domestic U.S. capital market and in foreign markets around the globe. Usually large issues that are sold to investors worldwide and therefore have excellent liquidity. Despite their global sales, global notes sold in the U.S. top U.S. investors are typically denominated in U.S. dollars.

Government National Mortgage Association (GNMA or "Ginnie Mae"). One of the large Federal Agencies. Government-owned Federal Agency that acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities. Largest issuer of mortgage pass-through securities. GNMA debt is guaranteed by the full faith and credit of the U.S. government (one of the few agencies that is actually full faith and credit of the U.S.).

Government Sponsored Enterprise (GSE). Privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over Treasuries. Some consider GSEs to be stealth recipients of corporate welfare. Examples of GSEs include: FHLB, FHLMC, FNMA and SLMA.

Government Sponsored Enterprise Security. A security issued by a Government Sponsored Enterprise. Considered Federal Agency Securities.

Index. A compilation of statistical data that tracks changes in the economy or in financial markets.

Interest-Only (IO) STRIP. A security based solely on the interest payments from the bond. After the principal has been repaid, interest payments stop and the value of the security falls to nothing. Therefore, IOs are considered risky investments. Usually associated with mortgage-backed securities.

Inverse Floater. A floating rate security structured in such a way that it reacts inversely to the direction of interest rates. Considered risky as their value moves in the opposite direction of normal fixed-income investments and whose interest rate can fall to zero.

Investment Advisor. A company that provides professional advice managing portfolios, investment recommendations and/or research in exchange for a management fee.

Investment Grade. Bonds considered suitable for preservation of invested capital; bonds rated a minimum of Baa3 by Moody's, BBB- by Standard & Poor's, or BBB- by Fitch. Although "BBB" rated bonds are considered investment grade, most public agencies cannot invest in securities rated below "A."

Liquidity. Relative ease of converting an asset into cash without significant loss of value. Also, a relative measure of cash and near-cash items in a portfolio of assets. Also, a term describing the marketability of a money market security correlating to the narrowness of the spread between the bid and ask prices.

Market Value. The fair market value of a security or commodity. The price at which a willing buyer and seller would pay for a security.

Mark-to-market. Adjusting the value of an asset to its market value, reflecting in the process unrealized gains or losses.

Master Repurchase Agreement. A widely accepted standard agreement form published by the Bond Market Association (BMA) that is used to govern and document Repurchase Agreements and protect the interest of parties in a repo transaction.

Maturity Date. Date on which principal payment of a financial obligation is to be paid.

Medium Term Notes (MTN's). Used frequently to refer to corporate notes of medium maturity (5-years and under). Technically, any debt security issued by a corporate or depository institution with a maturities from 1 to 10 years and issued under an MTN shelf registration. Usually issued in smaller issues with varying coupons and maturities, and underwritten by a variety of broker/dealers (as opposed to large corporate deals issued and underwritten all at once in large size and with a fixed coupon and maturity).

Money Market Account. An investment vehicle that allows for the pooling and investing of funds in traditional money market instruments, typically U.S. Government Securities and Instrumentalities.

Money Market Mutual Fund (MMF). A type of mutual fund that invests solely in money market instruments, such as Treasury bills, commercial paper, bankers' acceptances, and repurchase agreements. Money market mutual funds are registered with the SEC under the Investment Company Act of 1940 and are subject "rule 2a-7" which significantly limits average maturity and credit quality of holdings. MMF's are managed to maintain a stable net asset value (NAV) of $1.00. Many MMFs carry ratings by a NRSRO.

Moody's Investors Service. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Mortgage Backed Securities (MBS). Mortgage-backed securities represent an ownership interest in a pool of mortgage loans made by financial institutions, such as savings and loans, commercial banks, or mortgage companies, to finance the borrower's purchase of a home or other real estate. The majority of MBS are issued and/or guaranteed by GNMA, FNMA and FHLMC. There are a variety of MBS structures, some of which can be very risky and complicated. All MBS have reinvestment risk as actual principal and interest payments are dependent on the payment of the underlying mortgages which can be prepaid by mortgage holders to refinance and lower rates or simply because the underlying property was sold.

Mortgage Pass-Through Securities. A pool of residential mortgage loans with the monthly interest and principal distributed to investors on a pro-rata basis. Largest issuer is GNMA.

Municipal Note/Bond. A debt instrument issued by a state or local government unit or public agency. The vast majority of municipals are exempt from state and federal income tax, although some non-qualified issues are taxable.

Mutual Fund. Portfolio of securities professionally managed by a registered investment company that issues shares to investors. Many different types of mutual funds exist (bond, equity, money fund); all except money market funds operate on a variable net asset value (NAV).

National Association of Securities Dealers (NASD). Organization of brokers and dealers who trade securities in the United States, supervised by the SEC, and which provides regulatory exams for industry participants.

Negotiable Certificate of Deposit (Negotiable CD). Large denomination CDs ($100,000 and larger) that are issued in bearer form and can be traded in the secondary market.

NOW Checking Account (Negotiable Order of Withdrawal account). Deposit account on which checks may be drawn that pays a higher interest rate than savings accounts.

NRSRO. A "Nationally Recognized Statistical Rating Organization." A designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating. Includes Moody's, Standard & Poor's, Fitch and Duff & Phelps.

Offered Price. See also "Ask Price."

Open Market Operations. Federal Reserve monetary policy tactic entailing the purchase or sale of government securities in the open market by the Federal Reserve System from and to primary dealers in order to influence the money supply, credit conditions, and interest rates.

Par Value. Face value, stated value or maturity value of a security.

Physical Delivery. Delivery of readily available underlying assets at contract maturity.

Portfolio. Collection of securities and investments held by an investor.

Premium. The amount by which a bond or other financial instrument sells above its face value. See also "Discount."

Primary Dealer. Any of a group of designated government securities dealers designated by to the Federal Reserve Bank of New York. Primary dealers can buy and sell government securities directly with the Fed. Primary dealers also submit daily reports of market activity and security positions held to the Fed and are subject to its informal oversight. Primary dealers are considered the largest players in the U.S. Treasury securities market.

Prime Paper. Commercial paper of high quality. Highest rated paper is A-1+/A-1 by S&P and P-1 by Moody's.

Principal. Face value of a financial instrument on which interest accrues. May be less than par value if some principal has been repaid or retired. For a transaction, principal is par value times price and includes any premium or discount.

Prudent Investor Standard. Standard that requires that 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. More stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

Range Note. A type of structured note that accrues interest daily at a set coupon rate that is tied to an index. Most range notes have two coupon levels; a higher accrual rate for the period the index is within a designated range, the lower accrual rate for the period that the index falls outside the designated range. This lower rate may be zero and may result in zero earnings.

Rate of Return. Amount of income received from an investment, expressed as a percentage of the amount invested.

Rating. An evaluation of credit quality of a company's debt issue. Investors and analysts use ratings to assess the risk characteristics of an investment. Ratings can also be an evaluation of a entity's creditworthiness or ability to repay, taking into consideration its estimated percentage default rate and political risk. The City may use the following rating agencies: Moody's, Standard and Poor's, and Fitch Investors Service.

AAA or Aaa rating – the best quality, reliable and stable; judged to be of the highest quality, with minimal credit risk.

AA or Aa rating – quality, a bit higher risk than AAA/Aaa; judged to be of high quality and are subject to very low credit risk.

A rating – considered upper-medium grade quality; subject to low credit risk.

Realized Gains (Losses). The difference between the sale price of an investment and its book value. Gains/losses are "realized" when the security is actual sold, as compared to "unrealized" gains/losses which are based on current market value. See "Unrealized Gains (Losses)."

Reference Bills: FHLMC's short-term debt program created to supplement its existing discount note program by offering issues from one month through one year, auctioned on a weekly or on an alternating four-week basis (depending upon maturity) offered in sizeable volumes ($1 billion and up) on a cycle of regular, standardized issuance. Globally sponsored and distributed, Reference Bill issues are intended to encourage active trading and market-making and facilitate the development of a term repo market. The program was designed to offer predictable supply, pricing transparency and liquidity, thereby providing alternatives to Treasury bills. FHLMC's Reference Bills are unsecured general corporate obligations. This program supplements the corporation's existing discount note program. Issues under the Reference program constitute the same credit standing as other FHLMC discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

Reference Notes: FHLMC's intermediate-term debt program with issuances of 2, 3, 5, 10 and 30-year maturities. Initial issuances range from $2 - $6 billion with reopenings ranging $1 - $4 billion. The notes are high-quality bullet structures securities that pay interest semiannually. Issues under the Reference program constitute the same credit standing as other FHLMC notes; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Repurchase Agreement (Repo). A short-term investment vehicle where an investor agrees to buy securities from a counterparty and simultaneously agrees to resell the securities back to the counterparty at an agreed upon time and for an agreed upon price. The difference between the purchase price and the sale price represents interest earned on the agreement. In effect, it represents a collateralized loan to the investor, where the securities are the collateral. Can be DVP, where securities are delivered to the investor's custodial bank, or "tri-party" where the securities are delivered to a third party intermediary. Any type of security can be used as "collateral," but only some types provide the investor with special bankruptcy protection under the law. Repos should be undertaken only when an appropriate BMA approved master repurchase agreement is in place.

Reverse Repurchase Agreement (Reverse Repo). A repo from the point of view of the original seller of securities. Used by dealers to finance their inventory of securities by essentially borrowing at short-term rates. Can also be used to leverage a portfolio and in this sense, can be considered risky if used improperly.

Safekeeping. Service offered for a fee, usually by financial institutions, for the holding of securities and other valuables. Safekeeping is a component of custody services.

Sallie Mae. See "Student Loan Marketing Association."

Savings Account. An interest bearing account offered by banks and financial institutions.

Secondary Market. Markets for the purchase and sale of any previously issued financial instrument.

Securities Lending. An arrangement between and investor and a custody bank that allows the custody bank to "loan" the investors investment holdings, reinvest the proceeds in permitted investments, and shares any profits with the investor. Should be governed by a securities lending agreement. Can increase the risk of a portfolio in that the investor takes on the default risk on the reinvestment at the discretion of the custodian.

Sinking Fund. A separate accumulation of cash or investments (including earnings on investments) in a fund in accordance with the terms of a trust agreement or indenture, funded by periodic deposits by the issuer (or other entity responsible for debt service), for the purpose of assuring timely availability of moneys for payment of debt service. Usually used in connection with term bonds.

Spread. The difference between the price of a security and similar maturity Treasury investments, expressed in percentage terms or basis points. A spread can also be the absolute difference in yield between two securities. The securities can be in different markets or within the same securities market between different credits, sectors, or other relevant factors.

Standard & Poor's. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

STRIPS (Separate Trading of Registered Interest and Principal of Securities). Acronym applied to Treasury securities that have had their coupons and principal repayments separated into individual zero-coupon Treasury securities. The same technique and "strips" description can be applied to non-Treasury securities (e.g. FNMA strips).

Structured Notes. Notes that have imbedded into their structure options such as step-up coupons or derivative-based returns.

Student Loan Marketing Association (SLMA or "Sallie Mae"). One of the large Federal Agencies. A federally-charted public corporation (GSE) created to provide liquidity and a secondary market for lenders for loans to students and educational institutions. In 1997, SLMA initiated a process of unwinding its status as a GSE; however, until the process is complete, all debt issued will be considered GSE debt until maturity. SLMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and education sector. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its "global note" program.

TAP Notes: Federal Agency notes issued under the FHLB TAP program. Launched in 6/99 as a refinement to the FHLB bullet bond auction process. In a break from the FHLB's traditional practice of bringing numerous small issues to market with similar maturities, the TAP Issue Program uses the four most common maturities and reopens them up regularly through a competitive auction. These maturities (2,3,5 and 10 year) will remain open for the calendar quarter, after which they will be closed and a new series of TAP issues will be opened to replace them. This reduces the number of separate bullet bonds issued, but generates enhanced awareness and liquidity in the marketplace through increased issue size and secondary market volume.

Tennessee Valley Authority (TVA). One of the large Federal Agencies. A wholly owned corporation of the United States government that was established in 1933 to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. Power operations are separated from non-power operations. TVA securities represent obligations of TVA, payable solely from TVA's net power proceeds, and are neither obligations of nor guaranteed by the United States. TVA is currently authorized to issue debt up to $30 billion. Under this authorization, TVA may also obtain advances from the Treasury of up to $150 million. Frequent issuer of discount notes, agency notes and callable agency securities.

Total Return. Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

Treasuries. Collective term used to describe debt instruments backed by the U.S. Government and issued through the U.S. Department of the Treasury. Includes Treasury bills, Treasury notes, and Treasury bonds. Also a benchmark term used as a basis by which the yields of non-Treasury securities are compared (e.g., "trading at 50 basis points over Treasuries").

Treasury Bills (T-Bills). Short-term direct obligations of the United States Government issued with an original term of one year or less. Treasury bills are sold at a discount from face value and do not pay interest before maturity. The difference between the purchase price of the bill and the maturity value is the interest earned on the bill. Currently, the U.S. Treasury issues 4-week, 13-week and 26-week T-Bills

Treasury Bonds. Long-term interest-bearing debt securities backed by the U.S. Government and issued with maturities of ten years and longer by the U.S. Department of the Treasury. The Treasury stopped issuing Treasury Bonds in August 2001.

Treasury Notes. Intermediate interest-bearing debt securities backed by the U.S. Government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury. The Treasury currently issues 2-year, 5-year and 10-year Treasury Notes.

Trustee. A bank designated by an issuer of securities as the custodian of funds and official representative of bondholders. Trustees are appointed to insure compliance with the bond documents and to represent bondholders in enforcing their contract with the issuer.

Uniform Net Capital Rule. SEC regulation 15C3-1 that outlines the minimum net capital ratio (ratio of indebtedness to net liquid capital) of member firms and non-member broker/dealers.

Unrealized Gains (Losses). The difference between the market value of an investment and its book value. Gains/losses are "realized" when the security is actual sold, as compared to "unrealized" gains/losses which are based on current market value. See also "Realized Gains (Losses)."

Variable-Rate Security. A bond that bears interest at a rate that varies over time based on a specified schedule of adjustment (e.g., daily, weekly, monthly, semi-annually or annually). See also "Floating Rate Note."

Weighted Average Maturity (or just "Average Maturity"). The average maturity of all securities and investments of a portfolio, determined by multiplying the par or principal value of each security or investment by its maturity (days or years), summing the products, and dividing the sum by the total principal value of the portfolio. A simple measure of risk of a fixed-income portfolio.

Weighted Average Maturity to Call. The average maturity of all securities and investments of a portfolio, adjusted to substitute the first call date per security for maturity date for those securities with call provisions.

Yield Curve. A graphic depiction of yields on like securities in relation to remaining maturities spread over a time line. The traditional yield curve depicts yields on Treasuries, although yield curves exist for Federal Agencies and various credit quality corporates as well. Yield curves can be positively sloped (normal) where longer-term investments have higher yields, or "inverted" (uncommon) where longer-term investments have lower yields than shorter ones.

Yield to Call (YTC). Same as "Yield to Maturity," except the return is measured to the first call date rather than the maturity date. Yield to call and be significantly higher or lower than a security's yield to maturity.

Yield to Maturity (YTM). Calculated return on an investment, assuming all cash flows from the security are reinvested at the same original yield. Can be higher or lower than the coupon rate depending on market rates and whether the security was purchased at a premium or discount. There are different conventions for calculating YTM for various types of securities.

Yield. There are numerous methods of yield determination. In this glossary, see also "Current Yield," "Yield Curve," "Yield to Call" and "Yield to Maturity."