VENTURA COUNTY TRANSPORTATION COMMISSION

Investment Policy

Updated March 2022

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(March 2022)

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Introduction: The purpose of this document is to identify for the Ventura County Transportation Commission (VCTC) various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities that comply with state and local laws. Related activities which comprise good cash management include accurate cash projections and cash flows, the expeditious collection of revenue, the control of disbursements, cost effective banking relations, and a short-term borrowing program which coordinates working capital requirements and investment opportunity keeping the objective of the Policy, in priority order of Safety, Liquidity and Return on investment.

Scope: It is intended that this policy cover all funds and investment activities under the direct authority of VCTC. Funds specifically exempt from this policy include employee deferred compensation plans, employee pension plans, or assets held in trust by VCTC with specific investment instructions. The funds covered by this policy are accounted for and incorporated into the VCTC Annual Comprehensive Financial Report (ACFR) and include the following funds:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds

Prudence: All persons authorized to manage the overall portfolio of VCTC shall use the "prudent investor" standard. Persons authorized to make investment decisions act as trustees of public funds and therefore act as fiduciaries subject to the prudent investor standard which states, "When investing, reinvesting, purchasing, acquiring, exchanging, selling and/or managing public funds, a trustee shall act with care, skill, prudence and diligence under circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated need of the Commission, 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 Commission".

Authorized individuals acting in accordance with this Policy and written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion.

For VCTC fund invested in the county treasury, the county treasurer serves as a fiduciary and is subject to the prudent investor standard.

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Objective: The Commission's primary investment objectives in priority order shall be:

1. **Safety:** The foremost objective of VCTC's investment policy should be to protect, preserve, and maintain cash and investments placed in VCTC's trust on behalf of the citizens of the County. To attain this objective, the VCTC will diversify its investments by investing funds among a variety of securities with independent returns.

2. **Liquidity:** The VCTC investment portfolio will remain sufficiently liquid to enable VCTC to meet all operating and cashflow requirements which might be reasonably anticipated.

3. **Return on Investment:** The VCTC's investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout the budgetary and economic cycles only after ensuring safety and liquidity. These measurements should be commensurate with the VCTC's investment policy risk constraints, the cash flow characteristics of the portfolio, and the State and Local laws, ordinances or resolutions that restrict investments.

The Commission may from time to time sell securities that it owns in order to better reposition its portfolio assets in accordance with updated cashflow needs, but only after ensuring safety and liquidity.

Public Trust: All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio, it must be recognized that occasional measure losses are inevitable and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

Delegation of Authority: The Commission as permitted under California Government Code 53607 delegates the responsibility to invest or reinvest the funds of VCTC, or to sell or exchange securities so purchased to the Executive Director who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures in the absence of the Executive Director. The Executive Director may delegate these duties to his/her designee ("Finance Director") and/or an investment advisor as needed. The designee and/or advisor shall follow this Policy and such other written instructions as are provided.

Ethics and Conflicts of Interest: All investment officials involved in the investment functions shall refrain from personal business activity that could conflict with the execution and management of the investment function or which could impair their ability to make impartial investment decisions. Investment officials must provide in a timely manner a public disclosure document (Form 700 for staff) or when material interest in financial institutions or personal investment positions require 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 VCTC.

Authorized Financial Dealers and Institutions: The Finance Director will maintain a list of approved financial institutions authorized to provide investment services to the public agency in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). A determination should be made to ensure that all approved broker/dealer firms, and individuals covering the public agency, are reputable and trustworthy. In addition, the broker/dealer firms should have the ability to meet all of their financial obligations in dealing with the Public Agency. The firms, and individuals covering the agency, should be knowledgeable and experienced in Public Agency investing and the investment products involved. No public deposit shall be made except in a qualified depository as established by state laws. All financial institutions and broker/dealers who desire to conduct investment transactions with the public agency must supply the Finance Director with the following: audited financial statements, proof of Financial Industry Regulatory Authority (FINRA) certification, trading resolution, proof of State of California registration, completed broker/dealer questionnaire, certification of having read the Public Agency's investment policy and depository contracts.

An annual review of the financial condition and registrations of qualified bidders shall be conducted by the Finance Director. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the VCTC invests.

Authorized and Suitable Investments: California Government Code Sections 53601, 53635, 53638 and 53684 govern the investments permitted for purchase by the Commission. From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle. Percentage limitations and rating requirements, where indicated, apply at the time of purchase. Unless otherwise stated below, maximum maturity shall not exceed five years unless specifically approved by the Commission. All investments shall comply with the California Code. The funds of the Commission may be invested in the following:

> ***United States Government Obligations*** – ~~U.S.~~ United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest. Maximum maturity shall not exceed 5 years and there is no maximum percentage of portfolio as allowed by the California code (53601(b)).
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> ***United States Agency Securities*** – Federal agency or United States government-sponsored enterprises obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. Maximum maturity shall not exceed 5 years and there is no maximum percentage of portfolio as allowed by the California code (53061(f)).

Federal Instrumentality Securities (Government Sponsored Enterprises) – Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, the Federal Home Loan Bank, or in obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by the Federal National Mortgage Association; or in guaranteed portions of Small Business Administration notes; or in obligations, participations, or other instruments of or issued by a federal agency or a United States government-sponsored enterprise. Maximum maturity shall not exceed 5 years and there is no maximum percentage of portfolio as allowed by the California code (53061(f)).

State of California Obligations – Registered state warrants or treasury notes or bonds of the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the State of California or by a department, board, agency, or authority of the State of California. Maximum maturity shall not exceed 5 years and there is no maximum percentage of portfolio as allowed by the California code (53601 (c) and (d)).

California Local Agency Obligations – Bonds, notes, warrants, or other evidence of indebtedness of any local agency of the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency thereof. Maximum maturity shall not exceed 5 years and there is no maximum percentage of portfolio as allowed by the California code (53601(e)).

Banker's Acceptance – Banker's Acceptance (BA) otherwise known as bills of exchange or time drafts drawn on which are eligible for purchase by the Federal Reserve System. Purchases of banker's acceptances may not exceed 180 days maturity or 40 percent of the Commission's surplus funds which may be invested pursuant to this section. However, no more than 30 percent of the agency's money may be invested in the banker's acceptances of any one commercial bank pursuant (53601(g)).

Commercial paper – Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by a nationally recognized statistical rating organization (NRSRO). Eligible paper is further limited to issuing corporations that are organized and operated within the United States as a general corporation and having total assets in excess of five hundred million dollars ($500,000,000) and an "A" or higher rating for the issuer's debentures, other than commercial paper, as provided by a NRSRO.

Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation and purchases of commercial paper may not exceed 25 percent of the Commission's surplus money which may be invested pursuant to this section (53601(h)).

Negotiable Certificates of Deposits – Negotiable certificates of deposit issued by a nationally or state-chartered bank or a state or federal savings and loan association, or a state or federal credit union, or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30 percent of the Commission's surplus money which may be invested pursuant to this section. All deposits must be collateralized in accordance with the California Government Code. The collateralization level for certificates of deposits will be 110 percent ~~%~~. The Commission, at its discretion, may waive the collateralization requirements for any portion of the deposit that is covered by federal insurance. Maximum maturity shall not exceed 5 years (53601(i)).

Money Market Mutual Funds – Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission and invest in securities permitted by the California Government Code and limited to funds which strive to maintain a share value of $1.00 (money market funds). There is no maximum maturity, and the maximum percentage of portfolio is 20 percent ~~%~~ as allowed by the California code (53601(l)).

Ventura County Pooled Investment Fund – The Commission may invest in the Ventura County Investment Pool as long as the Pool investments are in compliance with the California Government Code. There is no maximum maturity and no maximum percentage of portfolio as allowed by the California investment code (53684).

State of California Local Agency Investment Fund (LAIF) – The Local Agency Investment Fund (LAIF) in the State Treasury in accordance with the provision of the California Government Code. There is no maximum maturity and there is no maximum percentage of portfolio as allowed by the California code (16429.1 et seq.).

Repurchase and Reverse Repurchase Agreements – Investments in repurchase agreements or reverse repurchase agreements of any securities authorized by this section. For purpose of this section, the term "repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the seller will repurchase such securities on or before a specified date for a specified amount. For the purpose of this section, the term "reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase such securities on or before a specified date for a specified amount. Investment in a reverse purchase agreement shall be made only upon prior approval of the legislative body of the Commission. Investments in repurchase agreements may be made when the term of the agreement does not exceed one year. The market value of the securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities, and the value shall be adjusted no less than quarterly. The total of all reverse repurchase agreements may not exceed 20 percent of the market value of the portfolio and the agreement does not extend 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security (53601(j)).

Review of Investment Portfolio: The securities held by the VCTC must be in compliance with Section 11.0 Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with Section IX Investments subsequent to the date of purchase, the Finance Director shall at least quarterly review the portfolio to identify those securities that do not comply. The Finance Director shall establish procedures to report to the commission and to its oversight committee, should one exist, major and critical incidences of noncompliance identified through the review of the portfolio.

Investment Pools/Mutual Funds: A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

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

Investments for Bond Proceeds: Bond proceeds shall be invested in securities permitted by the applicable bond documents. If the bond documents are silent as to permitted investments, bond proceeds shall be invested in securities permitted by this Policy. With respect to maximum maturities, the Policy authorizes investing bond reserve fund proceeds beyond the five years to coincide as nearly as practicable with the expected use of the funds and as prudent in the opinion of the Executive Director.

Ineligible Investments: The Commission shall not purchase federal agencies securities that take the form of inverse floaters, range notes, mortgaged-backed interest-only strips, or any floating-rate investments without a floor or invest in any funds as prohibited by the California Government Code or specifically stated within this Policy.

Maximum Limits: VCTC's investments will be subject to maturity limits and restrictions as imposed by the governing bodies of the agencies invested in. The maximum maturity of an investment shall be five years unless the Commission has granted express authority otherwise. All investments shall be made in consideration of and provide the necessary liquidity, minimize interest rate risk while maximizing earnings. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds.

Safekeeping and Custody: Securities purchased from broker/dealers should be held in a third-party custodian/safekeeping account. Said securities should be held in a manner that established the Commission's right of ownership. All securities owned by the Commission should be held by a third party in banks and savings and loans. All transactions will be executed on a delivery versus payment basis.

Collateralization: Collateralization is required on two types of investments: uninsured bank deposits and repurchase agreements.

Uninsured bank deposits may only be invested with financial institutions which participate in the California Local Agency Security Program (LASP) administered by the California Department of Business Oversight. LASP provides for collateral requirements, oversight and monitoring, and reporting by financial institutions.

Repurchase agreements also require collateral. The market value of securities that underlie a repurchase agreement shall not be allowed to fall below 102 percent ~~%~~ of the value of the repurchase agreement and the value shall be adjusted no less than quarterly. Securities that can be pledged for collateral shall consist only of securities permitted in this policy. Collateral shall be held by an independent third party with whom VCTC has established a custodial agreement.

Diversification: The Commission recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Investment Managers are expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. Portfolio diversification is employed as a way to control risk. The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. With the exception of ~~U.S.~~ United States Treasury securities and authorized pools, no more than 40 percent ~~%~~ of the VCTC's total investment portfolio will be invested in a single security type or with a single financial institution. Diversification may be further limited by specific investment type as detailed in Section IX Investment.

Internal Controls: The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Commission are protected from loss, theft, fraud, or misuse. Accordingly, the Finance Director shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures. Furthermore, monthly reconciliation of the investment records to bank, broker/dealer, and safekeeping confirmations as applicable will be performed. The reconciliations and investment report shall be reviewed by the Executive Director in order to insure the orderly and efficient conduct of business, including adherence to management policies; the safeguarding of assets; the prevention or detection of errors and fraud; the accuracy and completeness of the accounting records; and the timely preparation of reliable financial information.

Performance Standards: The investment portfolio shall be designated with the objective of obtaining a rate of return throughout the budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The Finance Director shall continually monitor and evaluate the portfolio's performance.

Reporting: The Executive Director and/or Finance Director shall render an investment report as part of the monthly budget report to the Commission which shall include, but not be limited to, the classification of the investment, the name of the institution or entity, the rate of interest, the maturity date as applicable, and the current market value. The report shall include a statement that the investments are in compliance with the investment policy, or the manner in which the portfolio is not in compliance. The report shall also include a statement indicating VCTC's ability to meet its liquidity requirements for the next six months or provide an explanation as to why sufficient money may, or may not be, available. As applicable, the report shall include the purchase date and price, issuer, percentage of portfolio, call dates, par and dollar amounts invested in each security.

Investment Policy Adoption: The investment policy shall be reviewed annually by the Commission to ensure its consistency with the overall objectives of the policy. Any modifications made thereto must be approved by the Commission. Furthermore, the Finance Director shall maintain written investment policy procedures for the operation of the investment program consistent with this policy. No person may engage in an investment transaction except as provided under the terms of this policy and procedures established by the VCTC.

Glossary: A list of terms is provided below to assist the reader with terminology used in this document.

Active Management Strategy: An investment strategy based on a manager or team of managers actively managing a fund's portfolio with the goal of outperforming benchmarks through analytical research, forecasts, and their own judgement.

Accrued Interest: The amount of interest that is earned but unpaid since the last interest payment date.

Agencies: Federal agency securities and/or Government-sponsored enterprises.

Annual Comprehensive Financial Report (ACFR): The official annual report of the agency. It includes ~~five~~ statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Practices (GAAP). It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

Ask Price or Asked: The price at which securities are offered.

Asset Allocation: The division of an investment portfolio among different asset categories, such as stocks, bonds, and cash.

Asset Backed Securities (ABS): Securities collateralized or backed by receivables such as loans. The assets are transferred or sold by the company to a Special Purpose Vehicle (SPV) and held in trust. The SPV or trust will issue debt collateralized by the receivable.

Bank Notes: A senior, unsecured, direct obligation of a bank or United States branch of a foreign bank.

Banker's Acceptance (BA): A draft, bill or exchange accepted by a bank or trust company as its financial responsibility as part of a trade finance process. These short-term notes are sold at a discount and are obligations of the drawer (the bank's trade finance client) as well as the bank. Once accepted, the bank is irrevocably obligated to pay the BA upon maturity if the drawer does not.

Basis Point: When a yield is expressed as X.YZ percent ~~%~~, the YZ digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. 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 offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

Bond: Interest-bearing security issued by a corporation, government, government sponsored enterprise, which can be executed through a bank or a trust company. The issuer covenants through an indenture or offering memorandum to pay the bond holder periodic interest payments and principal at maturity. The bond may be secured by specific assets of the issuer or the general credit of the issuer.

Bond Discount: When a bond is sold at a price below its par value.

Book Entry: The system, maintained by the Federal Reserve, by which most securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains an electronic 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.

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

Buy and Hold Strategy: A strategy based on holding all securities until maturity, regardless of fluctuation in the marked.

Callable Bonds: A bond issue which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Risk: The risk to a bondholder that the bond issue will exercise a callable bond feature and redeem the issue prior to maturity.

Cash Flow: A comparison of cash receipts (revenues) to required payments (expenses).

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

Certificate of Deposit Account Registry System (CDARS): A private CD placement service that allows local agencies to purchase more than $250,000 in CD's from a single financial institution while still maintaining Federal Deposit Insurance Corporation (FDIC) insurance coverage. CDARS facilitate the trading of deposits between California institutions and other participant institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

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

Commercial Paper (CP): Unsecured promissory notes issued by companies and government entities usually at a discount. Commercial paper is negotiable, although it is typically held to maturity. The maximum maturity is 270 days, with most CP issued for terms of less than 30 days.

County Pooled Investment Funds: The aggregate of all funds from public agencies placed in the custody of the county treasurer for investment and reinvestment.

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

Credit Risk: The risk that an issuer will default in the payment of interest or principal due on a security.

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.

Custodian: A bank or other financial institution that keeps custody of assets in the name of the depositor.

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.

Default Risk: The risk that issuers/borrowers will be unable to make the required payments on their debt obligation.

Defeased Bond Issues: Issues that have sufficient money to retire outstanding debt when due so that the agency is released from the contracts and covenants in the bond document.

Delivery versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is derived of securities with an exchange of a signed receipt for the securities.

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

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

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

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

Dollar-Weighted Average Maturity: A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by the size or book-value of that investment.

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

Event Risk: The risk associated with a changing portfolio value due to a market event causing swings in market prices and/or spread.

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

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per entity.

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

Federal Home Loan Banks (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

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

Federal Open Market Committee (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

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

Fiduciary: An individual who holds something in trust for another and bears liability for its safekeeping.

Financial Industry Regulatory Authority (FINRA): An independent, nongovernmental organization that writes and enforces the rules governing registered brokers and broker-dealer firms in the United States.

Generally Accepted Accounting Principles (GAAP): A common set of accounting principles, standards, and procedures.

Government Accounting Standards Board (GASB): A standard-setting body, associated with the Financial Accounting Foundation, which prescribes for governmental units.

Government National Mortgage Association (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the ~~U.S.~~ United States Government. Ginnie Mae securities are backed by the Federal Housing Administration (FHA)~~,~~ and Verterans Affairs (VA). The term "pass-through" is often used to describe Ginnie Mae~~s~~.

Guaranteed Investment Contracts (GIC): An agreement acknowledging receipt of funds for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

Index: An index is an indicator that is published on a periodic basis that shows the estimated price and/or yield levels for various groups of securities.

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

Interest Rate: The annual rate of interest received by an investor from the issuer for a security. Also known as "coupon" rate.

Interest Rate Risk: The risk associated with declines or rises in interest rates, which causes the market price of a fixed-income security to increase or decrease in value.

Investment Agreements: Investment agreements are contracts with respect to funds deposited by an investor. Investment agreements are often separated into those offered by banks and those offered by insurance companies. In the former case, they are sometimes referred to as "bank investment contracts".

Joint Powers Authority Pool: An entity formed by two or more public authorities, operating collectively may issue shares of beneficial interest to participating agencies.

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

Liquidity Risk: The risk that a security, sold prior to maturity, will be sold at a loss of value.

Local Government Investment Pool (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market-to-Market: The process by where the value of a security is adjusted to reflect current market conditions.

Market Risk: The risk that the value of a security will rise or decline as a result of changes in the market conditions.

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

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

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

Medium-Term Risk: Corporate or depository institution debt securities meeting certain minimum quality standards with a remaining maturity of five years or less.

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

Money Market Mutual Funds: An investment company that pools money from investors and invest in a variety of short-term money market instruments.

Mortgage-Backed Securities (MBS): Mortgage-backed securities are created when a mortgage or a purchaser of residential real estate mortgages creates a pool of mortgages and markets undivided interest or participation in the pool. MBS owners receive a prorate share of the interest and principal cash flows (net of fees) that are "passed through" from the pool of mortgages.

Mutual Funds: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

Net Asset Value (NAV): Net asset value is a term used in the mutual fund industry to determine the average price per share of a pool or the average price per share of a pool or mutual fund.

Net Present Value: An amount that equates future cash flows with their value in present terms.

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

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

Options: An option is a contract that give the buyer the right to buy or sell an obligation at a specified price for a specified time.

Par Value: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

Portfolio: Collection of securities held by an investor.

Premium: The amount by which the price paid for a security exceeds the security's par value.

Prime Rate: A preferred interest rate charged by commercial banks to their most creditworthy customers.

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

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

Prospectus: A disclosure document that must be provided to any prospective purchaser of a new securities offering registered with the SEC that typically includes information on the issuer, the issuer's business, the proposed use of the proceeds, the experience of the issuer's management, and certain certified financial statements (also known as "official statement").

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

Qualified Public Depositories: A financial institutions which does not claim exemption from the payment of any sales or compensation 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.

Rating: The designation used by investors' services to rate the quality of a security's creditworthiness.

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

Repurchase Agreement (Repo): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him/her for this.

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

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

Safety: In the context of investing public funds, safety relates to preserving the principal of an investment in an investment portfolio; local agencies address the concerns of safety by controlling exposure to risk.

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

Securities and Exchange Commission (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC Rule 15c3-1: See Uniform Net Capital Rule.

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.

Special Purpose Vehicle (SPV): A trust or similar structure created specifically to purchase securities and reprofile cash flows and/or credit risk. Mortgage or Asset Backed Securities may be issued out of the SPV and secured by the collateral transferred from the corporation.

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

Student Loan Marketing Associate (SLMA or Sallie Mae): The nation's saving, planning and paying for college company.

Supernational Institutions: International institutions formed by two or more governments that transcend boundaries to pursue mutually beneficial economic or social goals.

Total Return: Total return includes interest, realized gains and losses, and unrealized gains and losses over a given period of time.

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

Treasury Bills: A non-interest-bearing discount security issued by the ~~U.S.~~ United States Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

Treasury Bonds: Long-term coupon-bearing ~~U.S.~~ United States Treasury securities issued as direct obligations of the ~~U.S.~~ United States Government and having initial maturities of more than 10 years.

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

Treasury TIPS: ~~U.S.~~ United States Treasury securities whose principal increases at the same rate as the Consumer Price Index. The interest payment is then calculated from the inflated principal and repaid at maturity.

Underwriter: A dealer that purchases a new issue of municipal securities for resale.

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

Volatility: The degree of fluctuation in the price and valuation of securities.

Weighted Average Maturity (WAM): The average maturity of all the securities that comprise a portfolio, typically expressed in days or years.

Yield: The rate of annual income returns on an investment, expressed as a percentage. (a) Income Yield is obtained by dividing the current dollar income by the current market price for the security. (b) Net Yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Yield Curve: A graphic representation that shows the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

Yield-To-Call: The rate of return to the investor earned from payments of principal and interest, with interest compounded semi-annually at the stated yield when the security is redeemed at a specified call date.

Yield-To-Maturity: The rate of return to the investor earned from payments of principal and interest, with interest compounded semi-annually at the stated yield as long as the security remains outstanding until the maturity date.

Yield-To-Worst: For a given dollar price on a municipal security, the lowest of the yield calculated to the pricing call, par option or maturity.

Zero Coupon Securities: Securities that are issued at a discount and make no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.