City of Albany

INVESTMENT POLICY

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SECTION 1: INTRODUCTION

GOALS

The investment policy of the City of Albany is based upon state law, city charter and ordinances and the prudent money management rule. The primary goals of this policy are:

1. To ensure compliance of all State and Local laws governing the investment of monies in the custody of the City Treasurer.

2. To protect the principal monies entrusted to the City Treasurer.

3. To meet the daily cash flow demands of the City.

4. To generate the maximum amount of investment income within the parameters of prudent risk management.

The monies entrusted to the City Treasurer constitute the "Investment Portfolio" referred to in this document.

SECTION 2: IMPLEMENTATION

DELEGATION OF AUTHORITY

Pursuant to the City Charter, management responsibility for investments belongs to the City Treasurer. The Treasurer shall establish procedures for the operation of an investment program consistent with this investment policy and shall perform investment transactions. These procedures will include reference to safekeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. The Treasurer shall be responsible for all transactions undertaken. However, the Treasurer shall request review and/or approval of the City Manager for investments outside of the Local Agency Investment Fund (LAIF) unless otherwise specified.

The Treasurer shall appoint a Deputy City Treasurer who shall perform the Treasurer's duties in the absence of the Treasurer. The Treasurer may also delegate investment decision making and execution authority to an investment advisor. The advisor shall follow this investment policy and such other written instructions as are provided.

SCOPE

The Treasurer is responsible for investing the unexpended cash in the City Treasury. This investment policy applies to all the investment activities of the City of Albany, except for the Public Employees Retirement System (PERS), Deferred Compensation Funds, and the

Police and Fire Relief or Pension Fund of the Police and Fire Departments of the City of Albany, which are administered separately. The financial assets of all funds, with these four noted exceptions, shall be administered in accordance with the provisions of this policy.

OBJECTIVES

Objectives have been set in order to achieve the goals of this investment policy. The primary objectives, in priority order, of the City of Albany's investment policy are:

A. Safety of Principal

Safety of principal is the foremost objective of the City of Albany. With each investment transaction the Treasurer shall seek to ensure the preservation of capital in the overall investment portfolio. The City shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

1. **Credit risk**, defined as the risk of loss due to the failure of the issuer of a security shall be mitigated by investing in only very safe securities (see list of authorized investments), and by diversifying the Investment Portfolio so that the failure of any one issuer does not unduly harm the City's cash flow.

2. **Market risk**, defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the Investment Portfolio so that securities are diversified by maturity and may mature at the same time that major cash outflows occur, thus eliminating the need to sell securities prior to their maturity for cash flow purposes. It is explicitly recognized herein, however, that in a diversified portfolio, occasional measured losses are inevitable and will be considered within the context of overall investment return.

Further guidelines for safety of principal shall include:

1. Limiting the Investment Portfolio's exposure to each issue and each issuer of debt.
2. Determining the minimum credit requirements for firms that hold City monies.

B. Liquidity

The City of Albany's Investment Portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which will be reasonably anticipated. The Investment Portfolio shall maintain a position of at least 50% in "readily marketable" securities, i.e., those securities that are actively traded in the secondary market.

C. Return on Investment

Return on investments shall be a market average rate of return governed by the objectives of safety and liquidity in accord with prudent investment principles.

SUSTAINABLE AND ESG INVESTING

The City aims to include Environmental, Social, and Governance (ESG) factors in its investment decisions whenever possible. This means:

- **Supporting responsible companies**: Preference is given to companies that already follow good ESG practices.
- **Avoiding harmful industries**: The City will not invest in industries that are known to harm human health or the environment. These industries are listed in a separate document called the *ESG Implementation Policy*.
- **Evaluating ESG risks**: For companies in industries that are not excluded, their ESG risk ratings will be considered. These ratings help assess how a company's practices could affect the City's investments through reputational, financial, legal, or operational risks. The criteria for determining a company's eligibility relative to its ESG risk rating are contained in the ESG Investment Implementation Policy.
- **Applying consistent human rights principles:** The City will consider broadly recognized human rights standards when evaluating investments.
- **Respecting human rights**: The City will not invest in companies that consistently, knowingly, and directly provide services and/or products that facilitate and enable severe violations of human rights, war crimes, and crimes against humanity.
- **Using multiple sources**: Since ESG rating agencies may not always catch human rights violations, the City will use other trusted sources to decide which companies to exclude. The City Council will determine if any companies are to be excluded, and if so the exclusion shall be made via updating the ESG implementation Policy.
- **Reviewing policies regularly**: The City's Investment Policy and the ESG Implementation Policy will be reviewed at least annually, along with investment performance.

PRUDENCE

Generally, investments shall be made in the context of the "prudent investor" rule, which states:

> "...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."

Authorized individuals acting in accordance with written procedures and the 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 expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

ETHICS AND CONFLICTS OF INTEREST

The Investment Officers, i.e., the City Treasurer and Deputy City Treasurer, shall be governed by the "Code of Ethics" and the "Code of Professional Conduct" of the California Municipal Treasurers Association. The Investment Officers 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.

Investment Officers shall disclose any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial positions that could be related to the performance of the City of Albany's Investment Portfolio. Investment Officers shall subordinate their personal investment transactions to those of the City of Albany, particularly with regard to the timing of purchases and sales.

Investment Officers shall avoid any transaction that might impair public confidence in the City's ability to govern effectively. The Investment Officers shall comply with all relevant state laws governing financial conflicts of interest.

At all times, the Investment Officers shall act as custodians of the public trust.

SECTION 3: PROCEDURES

INTERNAL CONTROL

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, fraud, or misuse. The Treasurer shall establish an annual independent review by an external auditor. The purpose of this review shall be to consider means for improved future performance, and to verify that investments have been made in accordance with the City's policies and procedures.

SAFEKEEPING OF SECURITIES

To protect against potential losses by collapse of individual securities dealers, all securities owned by the City (including collateral on repurchase agreements), shall be held in the City's name in safekeeping by a third-party bank trust department, acting as a custodian of City funds. Said trust department shall act as agent for the City of Albany pursuant to a custody agreement between the bank and the City. All securities shall be received and delivered using standard delivery-versus-payment procedures. The Custodian shall provide safekeeping receipts of all securities held.

QUALIFIED DEALERS

The City shall transact business only with banks, savings and loans and investment securities dealers. The dealers must be primary dealers regularly reporting to the Federal Reserve Bank. The Treasurer shall investigate dealers wishing to do business with the City and determine if they are adequately capitalized, make markets in securities appropriate to the City's needs, and are recommended by managers of portfolios similar to the City's.

All financial institutions and securities dealers who desire to engage in investment transactions with the City of Albany shall submit a written certification that the supervising officer has reviewed the City's investment policy and agrees to disclose potential conflicts or risks to public funds that might arise out of business transactions between the firm/depository and the City of Albany. Employees of any financial institution offering securities or investments to the City of Albany shall be trained in the precautions appropriate to public sector investments and shall be required to familiarize themselves with the City's investment policy.

When two or more investment opportunities offer essentially the same maturity, yield, quality and liquidity, the City of Albany shall seek to promote local economic development by giving priority to the financial institutions in Albany, then Alameda County, and then California.
The City shall at least annually send a copy of the current investment policy to all dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies and intends to show the City only appropriate investments.

If the City has an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of the City.

PERFORMANCE STANDARDS

The Investment Portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles commensurate with the investment risk constraints and cash flow needs. The City will establish an appropriate performance benchmark to which to compare the performance of its portfolio.

REPORTING

California Government Code 53607 states that the Treasurer shall render a monthly list of investment transactions to the legislative body when investment authority has been delegated to the Treasurer by the legislative body.

The City Treasurer shall also render an investment report no less than quarterly to the City Manager and the legislative body of the City, once all bank statements have been reconciled by the Finance Department.

The report shall identify the type of investment, institution, settlement and maturity dates, purchase price and coupon rate. Current book value, current market value and yield to maturity rate shall be given for all securities with a maturity date exceeding twelve months.

SECTION 4: INVESTMENTS AND STRATEGIES

AUTHORIZED INVESTMENTS

The City is governed by California Government Code, Section 53600 et seq. Within the context of these limitations, the following investments are authorized as further limited herein. A security purchased in accordance with this policy shall not have a forward settlement date exceeding 45 days from the time of investment.

United States Treasury Bills, Bonds and Notes, or those instruments for which the full faith and credit of the Unites States are pledged for payment of principal and interest.

Federal Agency or United States Government-Sponsored Enterprise 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.

Municipal Obligations, which by definition may include registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state. Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

Supranational Obligations-United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 15% of the market value of the Investment Portfolio.

Banker's Acceptances-a bill of exchange or time drafts drawn on and accepted by a commercial bank. Banker's acceptances purchased may not exceed 180 days to maturity and 40% of the market value of the Investment Portfolio. No more than 5% of the market value of the portfolio may be invested in banker's acceptances issued by one bank.

Commercial paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):

(1) The entity meets the following criteria:

(A) Is organized and operating in the United States as a general corporation.

(B) Has total assets in excess of five hundred million dollars ($500,000,000).

(C) Has debt other than commercial paper, if any, that is rated in a rating category of “A” or its equivalent or higher by an NRSRO.

(2) The entity meets the following criteria:

(A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.

(B) Has program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.

(C) Has commercial paper that is rated “A-1” or higher, or the equivalent, by an NRSRO.

Purchases of eligible commercial paper may not exceed 270 days to maturity and may not exceed 25% of the market value of the Investment Portfolio.

Negotiable Certificates of Deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30% of the market value of the Investment Portfolio. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or a person with investment decision-making authority in the administrative office manager’s office, budget office, auditor-controller’s office, or treasurer’s office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

Medium Term Notes (MTNs) defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. MTNs eligible for purchase shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. The aggregate total of all purchased MTNs may not exceed 30% of the market value of the Investment Portfolio.

Asset-Backed Securities-a mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision for investments that are not issued or guaranteed by federal agencies and GSEs shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20% of the market value of the Investment Portfolio.

Repurchase Agreements (repos). The City may invest in repurchase agreements not exceeding seven (7) days maturity with banks and dealers with which the City has entered into a master repurchase contract which specifies terms and conditions of repurchase agreements. The market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

Local Agency Investment FUND (LAIF). The City may invest in LAIF; a pool established by the State Treasurer for the benefit of local agencies up to the maximum amount permitted by LAIF.

Local Government Investment Pools. Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in California Government Code section 53601 subdivisions (a) to (r), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in California Government Code section 53601 subdivisions (a) to (q), inclusive.

(3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

Time Deposits (CDs). The City may invest in time certificates of deposit issued by a national or state charted bank or federal savings and loan association rated C or better by Sheshunoff Information Services Inc. CDs are collateralized. If the collateral is government securities, 110% of the market value to the face amount of the deposit is required. Promissory notes secured by first mortgages and first trust deeds used as collateral require 150% of the market value to the face amount of the deposit. The City may waive the first $250,000 of collateral security for such deposits if the institution is insured pursuant to federal law. In order to secure such deposits, an institution shall maintain in the collateral pool securities having a market value of at least 10% in excess of the total amount deposited.

The maximum terms for time deposits shall be one year. Since time deposits are not liquid, no more than 15% of the Investment Portfolio may be invested in this category. The issuer firm should have been in existence for at least five years and be based in California. In general, the issuer must have a minimum 3% net worth to assets ratio, have $90 million in assets and its operation must have been profitable during its last reporting period.

Money Market Accounts. The City may invest in shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.). The company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs. (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000).

The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include commission that the companies may charge and shall not exceed 20% of the market value of the Investment Portfolio.

PROHIBITED INVESTMENTS

In accordance with Government Code Section 53601.6, no investment shall be made by the City in any of the following instruments: inverse floaters, range notes, interest only strips derived from a pool of mortgages, and any security that could result in a zero interest accrual if held to maturity.

MATURITIES

To the extent possible, maturities shall be selected to anticipate cash needs, thereby eliminating the possibility of the need for forced investment liquidation. Cash flow estimates shall be prepared in a prudent manner.

Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than 5 years from the date of purchase. However, investments may exceed five years in maturity after receiving authorization by the City Council at least three months prior to purchase. For purposes of compliance with this policy, an investment's term or remaining maturity shall be measured from the settlement date to final maturity.

DIVERSIFICATION

The City will diversify its investments by security type and institution. With the exception of U.S. Treasuries, federal agencies, and authorized pools, no more than 5% of the City's total investment portfolio shall be invested in the securities of any issuer regardless of security type.

TRADING

The City shall not make investments for the purpose of trading or speculation as the dominant criterion, such as anticipating an appreciation of capital value through changes in market rates.

SWAPPING OF SECURITIES

A swap is the movement from one security to another and may be done for a variety of reasons, such as to increase the Investment Portfolio's yield or return potential, lengthen or shorten the Investment Portfolio's overall duration, to take a profit, or to increase investment quality.

PORTFOLIO ADJUSTMENTS

Where this policy specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Should an investment percentage of portfolio limitation be exceeded due to an incident such as fluctuation in portfolio size, the affected securities may be held. The Treasurer shall consider restructuring the portfolio basing the decision in part on the expected length of time the portfolio will be imbalanced Credit criteria listed in this policy refers to the credit rating at the time the security is purchased. If an investment's credit rating falls below the minimum rating required at the time of purchase, the Treasurer will perform a timely review and decide whether to sell or hold the investment.

SECTION 5: POLICY REVIEW

This investment policy shall be reviewed by the City Council at a public meeting annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, rate of return, and its relevance to current law and financial and economic trends. Amendments and modifications to the policy shall be approved by the City Council prior to implementation.

SECTION 6: GLOSSARY

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

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

ASKED: The price at which securities are offered.

ASSET-BACKED SECURITIES: Securities that are supported by pools of assets, such as installment loans or leases, or by pools of revolving lines of credits. Asset-backed securities are structured as trusts in order to perfect a security interest in the underlying assets.

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

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

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

BOOK RETURN: Book return includes interest, amortization/accretion of premiums/discounts, realized gains and losses, over a given period of time.

BOOK VALUE: The value at which an asset is carried on a balance sheet.

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

CERTIFICATE OF DEPOSIT: A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender at the end of the loan period.

Certificates of Deposit (CDs) differ in terms of collateralization and marketability. Those appropriate to public agency investing include:

Negotiable Certificates of Deposit: Generally, short-term debt instrument that usually pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. The majority of negotiable CDs mature within six months while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor). Negotiable CDs are insured by FDIC up to $250,000, but they are not collateralized beyond that amount.

Non-Negotiable Certificates of Deposit: CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for non-negotiable CDs, but redemption includes a transaction cost that reduces returns to the investor. Non-negotiable CDs issued by banks and savings and loans are insured by the Federal Deposit Insurance Corporation up to the amount of $250,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral through an agreement between the investor and the issuer. Collateral may include other securities including Treasuries or agency securities such as those issued by the Federal National Mortgage Association.

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: An unsecured short-term promissory note issued by corporations or municipalities, with maturities ranging from 2 to 270 days.

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.

CUSTODIAN: A person or financial institution that oversees or holds funds for safekeeping to prevent them from being stolen or lost.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

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

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

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

DISCOUNT SECURITIES: Noninterest-bearing money market instruments that are issued a discount and redeemed at maturity for full face value (e.g., U.S. Treasury Bills.)

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

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

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

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

GOVERNMENT SPONSORED ENTERPRISES (GSE): Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Securities issued by 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.

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

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): Investment pools that range from the State Treasurer’s Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

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

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

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

MEDIUM TERM NOTES: Corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

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

NET ASSET VALUE: Net asset value (NAV) is a term used in the mutual fund industry to determine the average price per share of a pool or mutual fund. How this measure varies over time provides information on whether the pool is stable or variable. NAV is the market value of all securities in a mutual fund, less the value of the fund's liabilities, divided by the number of shares in the fund outstanding. Shares of mutual funds are purchased at the fund's offered NAV.

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

PORTFOLIO: Collection of securities held by an investor.

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

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

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

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

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

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

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

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation. SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, FHLMC, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

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

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

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

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

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