DRAFT

RESOLUTION NO. 2019-XX

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FREMONT APPROVING A STATEMENT OF INVESTMENT POLICY (FY 2019/20)

WHEREAS, pursuant to California Government Code Section 53646, the Treasurer of the City of Fremont has proposed a Statement of Investment Policy (FY 2019/20) for consideration by the City Council, which is attached hereto as Exhibit "A", and incorporated herein by reference; and

WHEREAS, the City Council wishes to delegate the authority to invest all public funds held by the City to the City Treasurer for a period of one year from the date of this Resolution as authorized by California Government Code Section 53607;

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Fremont, as follows:

SECTION 1. The City of Fremont Statement of Investment Policy (FY 2019/20) is hereby approved and adopted.

SECTION 2. The authority to invest and reinvest all public funds held by the City of Fremont, and to sell or exchange the securities so purchased, in compliance with the terms of the approved Statement of Investment Policy (FY 2019/20) is hereby delegated to the City Treasurer for a period of one year effective July 1, 2019, or until earlier revoked by the City Council.

ADOPTED, _______________, 2019 by the City Council of the City of Fremont by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

____

Mayor

ATTEST:	APPROVED AS TO FORM:
______________________	______________________
City Clerk	Assistant City Attorney

EXHIBIT A

CITY OF FREMONT
STATEMENT OF INVESTMENT POLICY (FY 2019/20)
Effective July 1, 2019

POLICY

It is the policy of the City of Fremont to invest public funds in a prudent manner which will provide the highest yield consistent with the maximum security and preservation of invested principal, while meeting the daily cash flow demands of the City, and conforming to all applicable federal, state and local statutes governing the investment of public funds.

SCOPE

This investment policy applies to all financial assets of the City and excludes retirement and deferred compensation funds. Financial assets are reported in the City's Comprehensive Annual Financial Report and are accounted for in the following funds:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Debt Service Funds
- Internal Service Funds
- Trust and Agency Funds
- Any new fund created by the City Council unless specifically exempted

The provisions of the related bond indentures or resolutions shall govern investments of bond proceeds. A glossary of terms is attached hereto as Attachment "1", and is incorporated herein by reference.

PRUDENCE

The City shall manage its temporarily idle cash investments under the "prudent investor" standard, as defined by California Government Code Section 53600.3, which shall be applied in the context of an overall portfolio. Investment officers shall manage the City's funds 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. Investment officers 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.

OBJECTIVES

The objectives for investing and managing public funds and the order of priority are as follows:

- **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions, as well as investing in high investment grade securities.

- **Liquidity:** The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. Liquidity refers to the ability to sell an investment at any given moment with a minimal chance of losing some portion of principal or interest.

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

DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived from the California Government Code. Management responsibility for the investment program is hereby delegated to the Treasurer, 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 Treasurer.

The Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this investment policy. The procedures should include references to safekeeping, Public Securities Association repurchase agreements, wire transfer agreements, collateral/depository agreements, banking services contracts, and other investment-related activities. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

The Treasurer can designate a staff person(s) to be responsible for investment transactions and to sign as a secondary signature on time deposits and other public fund accounts. Regardless of any other person so designated, the Treasurer is expressly authorized to so designate the City's Treasury Analyst as having this capacity. The City may engage the support services of outside professionals in regard to its investment program, as long as it can be clearly demonstrated that these services produce a financial advantage and protection of the portfolio.

ETHICS AND CONFLICTS OF INTEREST

The Treasurer and all investment personnel shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. The Treasurer and all investment personnel shall disclose to the City Manager any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the City's investment portfolio.

The State of California Fair Political Practices Commission Statement of Economic Interests, Form 700, shall be completed on an annual basis by the Treasurer and other employees designated in Government Code Section 87200.

AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Treasurer will maintain a list of financial institutions that are authorized to provide investment capacity selected on the basis of their creditworthiness, financial strength (minimum capitalization of $10,000,000), experience (at least five years of operation), and references. In addition, a list will also be maintained of approved security broker/dealers, primary or regional, who are authorized to provide investment and financial advisory services in California. If the City retains an investment advisor, the investment advisor may use its own list of approved issuers and authorized broker/dealers to conduct transactions on behalf of the City provided that the list is made available to the City upon request. No public deposit shall be made except in a qualified public depository as established by state laws.

An annual audited financial statement is required to be submitted by each financial institution and broker/dealer. The registration status and standing of all brokers/dealers shall be verified with the National Association of Securities Dealers, the Securities and Exchange Commission or other applicable self-regulatory organizations.

Annually and before engaging in investment transactions with a broker/dealer, the firm shall sign a certification form attesting that the individual responsible for the City's account with that firm has reviewed the investment policy and that the firm understands the policy and intends to present only those investment transactions appropriate under the policy.

AUTHORIZED AND SUITABLE INVESTMENTS

The City is empowered by California Government Code Section 53601 to invest in the following types of securities:

- Bonds and notes issued by the City of Fremont, the City of Fremont Redevelopment Agency, and the Fremont Public Financing Authority, regardless of the term to maturity for such bonds and notes. This extension of the maximum five-year term specified in California Government Code Section 53601 applies only to such bonds and notes issued by the above entities constituting the City and its affiliated public agencies.

- United States Treasury bills, notes, bonds, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

- Registered state warrants or treasury notes or bonds issued by the State of California in the third highest rating category or better by a nationally recognized statistical rating organization (NRSRO). Purchases may not exceed 30% of surplus funds.

- Registered treasury notes or bonds of any of the other 49 states in addition to California in the third highest rating category or better by a NRSRO. Purchases may not exceed 30% of surplus funds.

- Bonds, notes, warrants or other evidence of debt issued by a local agency within the State of California in the third highest rating category or better by a NRSRO. Purchases may not exceed 30% of surplus funds.

- Obligations issued by agencies or instrumentalities of the U.S. Government.

- Bankers' acceptances with a term not to exceed 180 days. Not more that 40% of surplus funds can be invested in bankers' acceptances and no more than 30% of surplus funds can be invested in the bankers' acceptances of any single commercial bank. The financial institutions must be rated in the highest short-term rating category by a NRSRO.

- Prime commercial paper may not exceed 270 days nor represent more than 10% of the outstanding paper of an issuing corporation, and carries the highest rating issued by Moody's Investors Service or Standard & Poor's Corporation. Commercial paper may not exceed 25% of total surplus funds. Eligible paper shall be issued by corporations that are organized and operating within the United States, having total assets in excess of $500,000,000, rated A-1, and if the issuer has issued long-term debt, it must be rated in the third highest rating category or better by a NRSRO.

- Negotiable certificates of deposit issued by federally or state chartered banks or associations or by a state licensed branch of a foreign bank. Purchases may not exceed 30% of surplus funds and must be rated in the third highest rating category or better by a NRSRO.

- Repurchase agreements that comply with statutory requirements, are documented by a written agreement, are fully collateralized by delivery to an independent third party custodian or the counterparty's bank's trust department or safekeeping department, and are for a term of one year or less. The market value of the collateral shall be 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less frequently than monthly. Repurchase agreements shall only be made with primary dealers of the Federal Reserve Bank of New York. *Reverse repurchase agreements and securities lending transactions are not to be entered into unless specifically authorized by the City Council*.

- Medium term notes with a maximum maturity of five years, by corporations organized and operating in the United States or by depository institutions licensed by the United States, or any state operating within the United States, and rated in the third highest rating category or better by a NRSRO. No more than 30% of surplus funds can be invested in this type of security.

- The Local Agency Investment Fund (LAIF) maintained by the State of California.

- Shares of beneficial interest issued by diversified management companies investing solely in the securities and obligations authorized by this section categorized as money market mutual funds. Such funds must carry the highest credit rating by a NRSRO. No more than 20% of surplus funds can be invested in such funds. The companies shall retain an investment adviser registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations as authorized by this section, and with assets under management in excess of $500,000,000. The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that these companies may charge.

- Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 of the California Government Code that invests in the securities and obligations authorized in subdivisions (a) to (o), 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. The adviser is registered or exempt from registration with the Securities and Exchange Commission. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (o), inclusive. The adviser has assets under management in excess of five hundred million dollars.

- Insured or collateralized time deposits or savings accounts secured in accordance with the provisions of Sections 53651 and 53652 of the California Government Code. If the collateral is government securities, 110% of market value to the face amount and accrued interest of the deposit is required. If secured by first mortgages and first deeds of trust, the market value must be 150% of the face amount and accrued interest of the deposit. The collateral must be held by a third party.

- Mortgage pass-through securities, collateralized mortgage obligations, mortgage-backed or other pay-through bonds, equipment lease-backed certificates, consumer receivable passthrough certificates, or consumer receivable-backed bonds. Securities in this category must be rated in the second highest rating category or better by a NRSRO and have a maximum remaining maturity of five years or less. No more than 20% of surplus funds may be invested in these securities.

- 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. Securities in this category must be rated in the second highest rating category or better by a NRSRO. No more than 30% of surplus funds may be invested in these securities.

Required ratings will be deemed to be the rating on the date of purchase.

A five-year maximum remaining maturity is allowed unless an extension of maturity is granted by the City Council.

Where this section specifies a percentage limitation for a particular security type, that percentage is applicable only on the date of purchase. Credit criteria listed in this section 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.

Prohibited Investments. In accordance with Section 53651 of the California Government Code, the City shall not invest any funds in inverse floaters, range notes or interest-only strips that are derived from a pool of mortgages or in any security that could result in zero interest accrual if held to maturity. The limitation shall not apply to investments in shares of beneficial interest issued under the Investment Company Act of 1940 that are authorized investments under Section 53601 of the California Government Code.

INVESTMENT POOLS/MUTUAL FUNDS

A thorough analysis of any pooled investments such as LAIF, money market funds, or local government investment pools held by the City shall be conducted by the City Treasurer on an annual basis. The analysis shall include a review of the pools investment policy, underlying securities, and an assessment of risk management procedures.

SAFEKEEPING AND CUSTODY

All security transactions entered into by the City shall be conducted on a delivery versus payment (DVP) basis. All securities purchased or acquired shall be held by a third party custodian having a custodial agreement with the City and shall be evidenced by a safekeeping receipt. The custodian must be a federal or state association, a trust company or a state or national bank who is a member of the Federal Reserve System.

DIVERSIFICATION

The City will diversify its investments by security type, except for securities issued by the U.S. Government and its agencies, and by institution to reduce or eliminate risk of loss. The following guidelines shall apply:

- Maturities selected shall provide for stability and liquidity.

- No more than 5% of surplus funds shall be invested in the securities of any issuer regardless of security type, excluding U.S. Treasuries, Federal Agencies, and pooled investments such as LAIF, money market funds, or local government investment pools.

REPORTING

The Treasurer shall submit to each member of the City Council a monthly report. The report shall contain a complete description of the portfolio, including the types of investments, issuers, maturity dates, par values and current market values. In the case of funds invested in the Local Agency Investment Fund (LAIF), funds invested by external investment managers, funds held by trustees or fiscal agents, and moneys administered by plan administrators of retirement or deferred compensation plans, current statements from those institutions will satisfy the reporting requirements. The report will also include a certification of the following:

- All investment activities since the last report have been made in full compliance with the investment policy.

- The City will meet its expenditure requirements for the next six months.

INTERNAL CONTROL

The Treasurer shall establish investment procedures that provide for adequate internal control. An annual process of independent review of the procedures will be part of the regular audit procedures performed by the City’s external auditor.

PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with investment risk constraints and the City’s cash flow needs. The basis to be used to determine whether market yields are being achieved shall be the funds most comparable to the portfolio and the U.S. Treasury note or bill with a maturity close to the average life of the portfolio.

ADOPTION

The investment policy shall be adopted annually by resolution of the City Council.

Attachment "1"

CITY OF FREMONT
STATEMENT OF INVESTMENT POLICY
GLOSSARY

The following technical words are included in the policy because they are common treasury and investment terminology.

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

Agencies: Debt instruments issued by the U.S. government agencies, departments, government-sponsored corporations and related instrumentalities to finance their own programs. Some examples of these agencies are the Federal Farm Credit Bank and the Federal Home Loan Bank.

Asked: The price at which securities are offered. The offer price is the cost of the security to the buyer.

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

Basis Points: Refers to the yield on bonds. Each percentage point of yield in bonds equals 100 basis points (1/100% or 0.01%). If a bond yield changes from 7.25% to 7.39%, that is a rate change of 14 basis points.

Benchmark: A passive index used to compare the performance, relative to risk and return, of an investor's portfolio.

Bid: The price offered by a buyer of securities. This is payment that the seller gets when a security is sold.

Broker: A broker brings a buyer and seller together for a commission.

Callable: Securities subject to payment of the principal amount and accrued interest prior to the stated maturity date, with or without premium.

Certificate of Deposit (CD): A time deposit with a specific maturity, evidenced by a certificate issued by commercial banks and savings institutions, that usually returns principal and interest to the lender at the end of the loan period. CDs differ in terms of collateralization and marketability, as follows:

> *Negotiable Certificates of Deposit* – Generally, a 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).

Non-Negotiable Certificates of Deposit – CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for these non-negotiable CDs, but 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 (FDIC) for up to $250,000, including principal and interest. Amounts deposited above this amount are required to be collateralized by the financial institution.

Collateral: Securities, evidences of deposit or other property which a borrower pledges to secure repayment of a loan or to secure deposits of public moneys.

Commercial Paper: An unsecured short-term promissory note issued by corporations, with maturities ranging from two to 270 days.

Corporate Notes and Bonds: Debt instruments, typically unsecured, issued by corporations, with original maturities in most cases greater than one year and less than 10 years.

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

Credit Rating: Various alphabetical and numerical designations used by institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness. Standard & Poor's and Fitch Ratings use the same system, starting with their highest rating, of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Service uses Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C, and D. Each of the services uses pluses (+) and minuses (-), or numerical modifiers to indicate steps within each category. The top four letter categories are considered investment-grade ratings.

Credit Risk: The chance that an issuer will be unable to make scheduled payments of interest and principal on an outstanding obligation. Another concern for investors is that the market's perception of a corporation's credit will cause the market value of a security to fall, even if default is not expected.

CUSIP Number: An identifying number developed by the Committee on Uniform Security Identification Procedures, under the auspices of the American Bankers Association, to provide a uniform method of identifying municipal, U.S. government, and corporate securities. The CUSIP number is a nine-character identifier unique to the issuer, the specific issue and the maturity, if applicable (the first six characters identifying the issuer, the next two identifying the security, and the last digit providing a check digit to validate the accuracy of the preceding CUSIP number).

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

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

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

Delivery versus Payment: 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 signed receipt for the securities.

Discount: The difference between the price of a security and its value at 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: Non-interest bearing money market instruments that are issued below the face amount and redeemed at maturity at full face value, such as U.S. Treasury Bills.

Diversification: Dividing investment funds among a variety of securities offering independent returns, maturities and market risks.

External Investment Managers: Professional money managers who administer pooled investments on behalf of local governments and are paid on a fee for service basis. A local agency may delegate discretionary or non-discretionary authority. Discretionary authority allows the manager to make trades proactively in compliance with a set of investment criteria. With non-discretionary authority, the manager must obtain the local agency's approval for investment transactions.

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

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) that lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions, and insurance companies. The mission of the FHLB 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 of 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. FNMA 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 highly liquid and widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac): This agency was established in 1970 to help maintain the availability of mortgage credit for residential housing.

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.

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 holders are protected by the full faith and credit of the U.S. government. GNMA securities are backed by the FHA, VA, or FMHA mortgages. The term “pass-throughs” is often used to describe GNMA securities.

Guaranteed Investment Agreement: A contract with a financial institution to guarantee a certain investment return on moneys invested under the agreement. It is usually provided by a highly rated financial company, in most instances an insurance company or a commercial bank. It is sometimes used as a convenient means of managing bond proceeds that are subject to yield restrictions or rebate. The return may be fixed or may float at a level related to the yield on the bonds (bond proceeds) or an index.

Liquidity: An asset 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 in size.

Liquidity Risk: The chance that a security, sold prior to maturity, will be sold at a loss of value. For a local agency, the liquidity risk of an individual investment may not be a critical as how the overall liquidity of the portfolio allows the agency to meet its cash needs.

Local Agency Investment Fund (LAIF): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment.

Market Risk: The chance that the value of a security will decline as interest rates rise. In general, as interest rates fall, prices of fixed income securities rise. Similarly, as interest rates rise, prices fall. Market risk also is referred to as systematic risk or risk that affects all securities within an asset class similarly.

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

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. It specifies 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 Note: Corporate or depository institution debt securities meeting certain minimum quality standards (as specified in the California Government Code) 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.

Offer: The price asked by a seller of securities. When buying securities, the investor asks for an offer.

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.

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

Portfolio: Collection of securities held by an investor. The purpose of a portfolio is to reduce risk by diversification.

Premium: The difference between the par value of a security and the cost of the security, when the cost is above par. Investors pay a premium to purchase a security when the return to the investor (yield) is lower than the stated coupon (interest rate) on the investment.

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: A standard of conduct where a person of discretion and intelligence who is seeking a reasonable income and preservation of principal acts with care, skill, prudence and diligence when investing, acquiring, exchanging, selling, and managing funds. The test of whether the rule is being met is if a prudent person acting in such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

Rate of Return: The yield of a security based on the ratio of the coupon income to the purchase or market price.

Repurchase Agreement: An agreement of one party (for example, a financial institution) to sell securities to a second party (such as a local agency) and a simultaneous agreement by the first party to repurchase the securities at a specified price from the second party on demand or at a specified date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.

Reverse Repurchase Agreement: An agreement of one party (for example, a financial institution) to purchase securities at a specified price from a second party (such as a local agency) and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Risk: The uncertainty of maintaining the principal or interest associated with an investment due to a variety of factors.

Safekeeping: A service to customers rendered by financial institutions for a fee whereby securities and valuables of all types and descriptions are held in the bank's vault for protection. Other services normally provided include marking the portfolio to market value, and reporting investments held and investment activities.

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 risks.

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

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

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

Supranational Debt: International or multi-lateral financial agency debt, will capitalized, with strong credit support from contingent capital calls from member countries. Large Supranational Debt is rated AAA by most NRSROs and is highly liquid, with availability in a wide range of maturities.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Treasury bills have a maximum maturity of 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.

Variable Rate Notes: Securities which pay interest at rates that can fluctuate during the life of the security.

When Issued: A conditional transaction that takes place between the time a new issue is offered and the time of physical delivery of the bonds. It is understood between the buyer and the seller that a transaction will occur when and if the bonds are issued.

Yield: The rate of annual income return on an investment, expressed as a percentage. Income yield is obtained by dividing the current dollar income by the current market price for the security. 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 purchase date to the maturity date.

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.