City of Westminster
Investment Policy
March 7, 2023

I. POLICY

The City of Westminster ("the City") is a Colorado home rule municipality operating under its City Charter. The City functions under the direction of a City Manager who is appointed by a seven-member City Council. Colorado Statutes provide home rule municipalities with legal authority to promulgate and implement local standards for cash and investment management operations.

It is the policy of the City to invest public funds in a manner that will provide preservation of capital, meet the daily liquidity needs of the City, diversify the City's investments, conform to all local rules and state statutes governing the investment of public funds, and generate market rates of return.

This Investment Policy addresses the methods, procedures and practices which must be exercised to ensure effective and judicious fiscal and investment management of the City's funds. It replaces any previous Investment Policy or investment procedures of the City.

The Investment Policy has been in place since adopted in April 1999. This Investment Policy has been updated three times prior to 2023 with the last update in January 2013. The Investment Policy is being updated as of March 7, 2023, in accordance with the City Charter and provisions of Section IV of the Investment Policy.

II. SCOPE

This Investment Policy applies to the activities of the City with regard to investing the financial assets of all funds except for its Employee Pension Plan Funds, the Deferred Compensation Fund, and the Volunteer Firefighter Pension Fund that are organized and administered separately. The policy shall apply to any new fund that may be created unless specifically exempted from the policy. Proceeds of debt issuance shall be invested in accordance with the City's general investment philosophy as set forth in this policy; however, such proceeds are to be invested pursuant to the permitted investment provisions of their specific governing bond documents.

Funds collected for the City of Westminster by other government agencies shall be governed by the investment policies of that agency and are not subject to the provisions of this policy.

Cash shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective average daily balances relative to the total pooled balance in the investment portfolio.

III. INVESTMENT OBJECTIVES

The City's funds shall be invested in accordance with all applicable City policies, Colorado statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

- Preservation of capital and protection of investment principal.
- Maintenance of sufficient liquidity to meet anticipated cash flows.
- Diversification to avoid incurring unreasonable financial risks.
- Attainment of a market rate of return as defined in Section XIII of this Investment Policy.

IV. DELEGATION OF AUTHORITY

Authority to manage the City's investment portfolio is derived from City Charter Section 4.12. Management responsibility for the investment program is vested with the Finance Director. The Finance Director shall maintain a list of employees of the City of Westminster who are authorized to purchase, sell, wire securities or funds, or transfer custodianship on behalf of the City.

The Finance Director shall have the discretion to appoint one or more investment advisers, registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940, to assist in the management of all or a portion of the City's investment portfolio. All investments made through such investment advisers shall be within the guidelines of the City's investment policies.

The Finance Director shall establish written procedures and internal controls for the operation of the City's investment program, designed to prevent loss of public funds due to fraud, error, misrepresentation and imprudent actions.

V. PRUDENCE

The standard of prudence to be used for managing the City's assets is the "prudent investor" standard applicable to a fiduciary, which states that a prudent investor "shall exercise the judgment and care, under circumstances then prevailing, which men of prudence, discretion, and intelligence exercise in the management of the property of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of capital." (Colorado Revised Statutes 15-1-304, Standard for Investments.)

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally without risk and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the City.

Authorized investment staff acting in accordance with written policies and 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 to the Finance Director and appropriate action is taken to control adverse developments.

VI. INVESTMENT COMMITTEE

The Finance Director shall appoint an Investment Committee, chaired by the Treasury Manager and shall include at least two additional employees of the City knowledgeable in the area of governmental investments. The purpose of the Investment Committee shall be to provide advice regarding the operation of the cash management and investment program. The Committee shall meet at least once per quarter.

VII. ETHICS AND CONFLICTS OF INTEREST

City employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the City's investment program or that could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees shall disclose to the Finance Director and to the City Manager any personal financial interests that may be related to or that may conflict with the City's investment program, and they shall subordinate their personal investment transactions to those of the City.

VIII. AUTHORIZED SECURITIES AND TRANSACTIONS

All investments will be made in accordance with the home rule City Charter. Secondarily, except as specifically defined in this Policy and in accordance with the City Charter, all investments will be made in accordance with the Colorado Revised Statutes (C.R.S.) as follows: C.R.S. 11-10.5-101, et seq. Public Deposit Protection Act; C.R.S. 11-47-101, et seq. Savings and Loan Association Public Deposit Protection Act; C.R.S. 24-75-601, et. seq. Funds - Legal Investments; C.R.S. 24-75-603, Depositories; and C.R.S. 24-75- 702, Local governments - authority to pool surplus funds. Any revisions or extensions of these sections of the statutes will be assumed to be part of this Investment Policy immediately upon being enacted.

This Investment Policy further defines the investment of City funds to include the securities and transactions listed below and summarized in Exhibit A.

1. U.S. Treasury Obligations: Treasury bills, Treasury notes, Treasury bonds and Treasury STRIPS with maturities not exceeding seven years from the date of trade settlement. At all times, the City shall maintain at least 15% of its investment portfolio in U.S. Treasury obligations.

2. Federal Agency debentures and mortgage-backed securities with a final maturity not exceeding seven years from the date of trade. The total investment in Federal Agency securities shall not exceed 10% of the City's investment portfolio. The maturity limit for mortgage-backed securities is based on the expected average life at time of purchase, measured using Bloomberg or other industry standard methods.

3. Federal Instrumentality Securities: Debentures, discount notes, callable securities, step-up securities, collateralized mortgage obligations, and stripped principal or coupons with maturities not exceeding seven years from the date of trade settlement. Subordinated debt may not be purchased. Not more than 30% of the City's investment portfolio may be invested in the securities of any one federal instrumentality. The total investment in collateralized mortgage obligations shall not exceed 10% of the City's investment portfolio. The maturity limit for collateralized mortgage obligations is based on the expected average life at time of purchase, measured using Bloomberg or other industry standard methods.

4. Repurchase Agreements or flexible repurchase agreements collateralized by U.S. Treasury obligations or Federal Instrumentality securities listed in 1. and 3. above with a final maturity not exceeding ten years. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the transaction. Collateral shall be held by the City's third-party custodian bank, and the market value of the collateral securities shall be marked-to-the market daily. Repurchase agreements shall have a termination date of 180 days or less. Flexible repurchase agreements shall have a maximum term of the life of the corresponding construction project or one year, whichever is less.

   Repurchase Agreements shall be entered into only with broker/dealers recognized as primary dealers by the Federal Reserve Bank of New York, or with firms that have a primary dealer within their holding company structure. Approved Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent by a Nationally Recognized Statistical Rating Organization. Repurchase agreement counterparties shall execute a City approved Master Repurchase Agreement with the City. The Finance Director shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of broker/dealers who have executed same.

5. Commercial Paper with maturities not to exceed 270 days. At the time of purchase commercial paper shall be rated at a minimum by at least two of the ratings services as follows: A-1 by Standard & Poor's, P-1 by Moody's, or F-1 by Fitch.. The total investment in commercial paper shall not exceed 20% of the City's

investment portfolio. The aggregate investment in commercial paper, bankers acceptances and corporate or bank securities shall not exceed 50% of the City's investment portfolio, and no more than 5% of the City's investment portfolio may be invested in the obligations of any one issuer.

6. Eligible Bankers Acceptances with maturities not to exceed 180 days, issued by FDIC insured state or national banks with combined capital and surplus of at least $250 million. Banker's acceptances at the time of purchase shall be rated at a minimum by at least two of the ratings services as follows: A-1 by Standard & Poor's, P-1 by Moody's, or F-1 by Fitch. The total investment in bankers acceptances shall not exceed 20% of the City's investment portfolio. The aggregate investment in bankers acceptances, commercial paper, and corporate or bank securities shall not exceed 50% of the City's investment portfolio, and no more than 5% of the City's investment portfolio may be invested in the obligations of any one issuer.

7. Corporate or Bank Securities denominated in U.S. dollars of any corporation or bank organized and operating within the United States with a net worth in excess of $250 million. Corporate or bank securities with maturities not to exceed three years from the date of trade settlement and at the time of purchase are rated at a minimum by at least two of the ratings services as follows: AA- by Standard & Poor's, Aa3 by Moody's, or AA- by Fitch or A-1 by Standard & Poor's, P-1 by Moody's, or F-1 by Fitch for short-term securities. The total investment in corporate or bank securities shall not exceed 30% of the City's investment portfolio. The aggregate investment in corporate or bank securities, commercial paper and bankers acceptances shall not exceed 50% of the City's investment portfolio, and no more than 5% of the City's investment portfolio may be invested in the obligations of any one issuer. The term "Bank Security" includes Negotiable Certificates of Deposit issued by banks organized and chartered within the United States. These instruments are investment securities and not deposits as described in section VIII.9.

8. Municipal Securities:
   Any security that is a general or revenue obligation of any state of the United States, the District of Columbia, or any territorial possession of the United States or of any political subdivision, institution, department, agency, instrumentality, or authority of any of such governmental entities. At the time of purchase, the security must carry at least two credit ratings at or above "A- or A3" or its equivalent from nationally recognized statistical rating organizations if it is a general or revenue obligation of Colorado or of any political subdivision, institution, department, agency, instrumentality, or authority of Colorado, or carries at least two credit ratings at or above "AA- or Aa3" or its equivalent from such organizations if it is a general or revenue obligation of any other state of the United States, the District of Columbia, or any territorial possession of the United States or of any political subdivision, institution, department, agency, instrumentality, or authority of any of such governmental entities.
   Any security of the investing public entity or any certificate of participation or other security evidencing rights in payments to be made by the investing public

entity under a lease, lease-purchase agreement, or similar arrangement. At the time of purchase, the security shall carry at least two credit ratings from nationally recognized statistical rating organizations and is rated at or above "A- or A3" or its equivalent by all such organizations that have provided a rating. The period from the date of settlement of this type of security to its maturity date shall be no more than seven years. The aggregate value of all securities referred to in this section shall equal no more than 20% of the total portfolio, and the maximum allocation to any individual issuer shall equal no more than 5% of the total portfolio.

9. Non-negotiable Certificates of Deposit with a maturity not exceeding one year in any FDIC insured state or national bank, or state or federal savings bank located in Colorado that is a state approved depository per C.R.S. 24-75-603. Certificates of deposit that exceed FDIC insurance limits shall be collateralized as required by the Public Deposit Protection Act or the Savings and Loan Association Public Deposit Protection Act. The total investment in non-negotiable certificates of deposit shall not exceed 10% of the City's investment portfolio and not more than 5% of the City's investment portfolio may be invested in the certificates of any one bank.

10. Local Government Investment Pools authorized under C.R.S. 24-75-702 that: 1) are "no-load" (no commission or fee shall be charged on purchases or sales of shares); 2) limit assets of the fund to those securities authorized by state statute; and 3) have a rating of AAAm by Standard & Poor's, Aaa by Moody's or AAAf/AAAmmf by Fitch. The total investment in local government investment pools shall not exceed 50% of the City's investment portfolio and not more than 30% of the City's investment portfolio may be invested in any one pool.

11. Money Market Mutual Funds registered under the Investment Company Act of 1940 that: 1) are "no-load" (no commission or fee shall be charged on purchases or sales of shares); 2) have a constant net asset value of $1.00 per share; 3) limit assets of the fund to those securities authorized by state statute; 4) have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and 5) have a rating of AAAm by Standard & Poor's, Aaa by Moody's or AAAmmf by Fitch. The total investment in money market mutual funds shall not exceed 20% of the City's investment portfolio and not more than 10% of the City's investment portfolio may be invested in any one fund.

12. Supranational Securities with a maximum maturity not exceeding five (5) years. The issues must be US 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. The securities are rated at a minimum by at least two of the ratings services as follows: AA by Standard & Poor's, Aa2 by Moody's, or AA by Fitch. No more than 20% of the total portfolio may be invested in these securities, and no more than 5% of the portfolio may be invested in any single issuer.

The foregoing list of authorized securities shall be strictly interpreted. Any deviation from this list must be pre-approved by the City Manager.

Tests for limitations on percentages of holdings apply to the composite of the City's entire investment portfolio, not to individual portfolios maintained by the City. Percentage limitations used for measurements are based on the percentage of portfolio cost value at the time of purchase.

If following the purchase of a security, its credit rating falls below the required minimum rating, the Finance Director will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors

IX. INVESTMENT MATURITY, LIQUIDITY AND RISK MANAGEMENT

The investment portfolio shall remain sufficiently liquid to meet all cash requirements that may be reasonably anticipated. To the extent possible, investments shall be matched with anticipated cash flows and known future liabilities. Investments shall be limited to maturities not exceeding seven years from the date of trade settlement, unless the maturity is matched to a specific cash flow need, and the purchase is preapproved by the Investment Committee. The weighted average final maturity of the investment portfolio shall not exceed three years.

Additionally, the City adopts the following strategies to control and mitigate its exposure to market risk:

- The maximum percent of callable securities (does not include "make whole call" securities as defined in the Glossary) in the portfolio will be 20%.
- The duration of the portfolio will at all times be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the City based on the City's investment objectives, constraints and risk tolerances.

X. COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded. If the City is offered a security for which there is no other readily available competitive offering, quotations for comparable or alternative securities will be documented.

XI. SELECTION OF BROKER/DEALERS

The Finance Director shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the City to purchase securities only from those authorized firms.

To be eligible, a firm must meet at least one of the following criteria:

1. Be recognized as a primary dealer by the Federal Reserve Bank of New York or have a primary dealer within its holding company structure,
2. Report voluntarily to the Federal Reserve Bank of New York,
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

Broker/dealers will be selected by the Finance Director on the basis of their expertise in public cash management and their ability to provide service to the City's account. Approved broker/dealer representatives and the firms they represent shall be licensed to do business in Colorado and as such are subject to the provisions of the Colorado Revised Statutes, including but not limited to C.R.S. 24-75-601. Each authorized broker/dealer shall be required to submit and annually update a City approved Broker/Dealer Information Request Form that includes the firm's most recent financial statements.

In the event that an external investment advisor is not used in the process of recommending a particular transaction in the City's portfolio, authorized broker/dealers shall attest in writing that they have received a copy of this Policy.

Selection of broker/dealers used by an external investment adviser retained by the City will be at the sole discretion of the external investment adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

The City may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in item 5 of the Authorized Securities and Transactions section of this Investment Policy.

XII. SAFEKEEPING AND CUSTODY

The Finance Director shall approve one or more banks to provide safekeeping and custodial services for the City. A City approved safekeeping agreement shall be executed with each custodian bank. To be eligible, a financial institution shall qualify as a depository of public funds in Colorado as defined in C.R.S. 24-75-603.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. Ownership of all securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities purchased by the City will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by the City approved custodian bank, its correspondent bank or the Depository Trust Company (DTC).

The City's custodian will be required to furnish the City monthly reports of holdings of custodied securities as well as a report of monthly safekeeping activity. In addition, safekeeping receipts or customer confirmations shall be issued for each transaction.

XIII. PERFORMANCE BENCHMARKS

The City's investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the investment portfolio shall be compared to an appropriate market benchmark, chosen by the Finance Director. The appropriate index will have a duration and asset mix that approximates the portfolio's and will be utilized as a benchmark to be compared to the portfolio's total rate of return.

XIV. REPORTING

Performance of the portfolio shall be reported quarterly and submitted to the City Manager. Reports shall include details of the characteristics of the portfolio as well as its performance for that period. Material deviations from projected investment strategies shall be reported immediately to the City Manager.

XV. POLICY REVISIONS

This Investment Policy shall be reviewed annually by the Investment Committee. If deemed appropriate, the Investment Committee shall recommend revisions to the City Manager.

POLICY APPROVAL

Lawrence Dorr, CFO, Deputy City Manager

EXHIBIT A

SUMMARY OF AUTHORIZED SECURITIES THAT MAY BE PURCHASED BY THE CITY OF WESTMINSTER

INSTRUMENT	PORTFOLIO MIN/MAX	ISSUER MAXIMUM	MAXIMUM MATURITY
U.S. Government Securities	15% min 100% max	100%	Seven (7) years unless the maturity is matched to a specific cash flow need.
U.S. Government Agencies	10% max	10%	Seven (7) years unless the maturity is matched to a specific cash flow need.
U.S. Government Instrumentalities	100% max	30%	Seven (7) years unless the maturity is matched to a specific cash flow need.
Collateralized Mortgage Obligations (CMOs)	10% max	10%	Seven (7) years unless the maturity is matched to a specific cash flow need.
Repurchase Agreements	100% max	100% max	180 days
Commercial Paper	20% max	5%	270 days
Banker's Acceptances	20% max	5%	180 days
Corporate or Bank Securities	30% max	5%	Three (3) years
Municipal Securities	20% max	5%	Seven (7) years
Supranationals	20% max	5%	Five (5) years
CD's (non-negotiable)	10% max	5%	One (1) year
LGIPs	50% max	30%	Comply with Rule 2a-7
Money Market Mutual Funds	20% max	10%	Comply with Rule 2a-7

GLOSSARY OF INVESTMENT TERMS

AGENCIES. Shorthand market terminology for any obligation issued by *a government-sponsored entity (GSE)*, or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "FreddieMac" issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "FannieMae," issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as "GinnieMae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASKED. The price at which a seller offers to sell a security.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER'S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BID. The price at which a buyer offers to buy a security.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

Certificate of Deposit (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

Certificate of Deposit Account Registry SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

Collateral. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

Collateralized Mortgage Obligations (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

Commercial Paper. The short-term unsecured debt of corporations.

Cost Yield. The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

Coupon. The rate of return at which interest is paid on a bond.

Credit Risk. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

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.

Dealer. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

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

Delivery vs. Payment (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

Derivative. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

Discount. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

Diversification. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

Duration. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See modified duration).

Federal Funds Rate. The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

Federal Open Market Committee. A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

Leverage. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

Liquidity. The speed and ease with which an asset can be converted to cash.

Local Government Investment Pool. An investment by local governments in which their money is pooled as a method for managing local funds.

Make Whole Call. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

Margin. The difference between the market value of a security and the loan a broker makes using that security as collateral.

Market Risk. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

Market Value. The price at which a security can be traded.

Marking to Market. The process of posting current market values for securities in a portfolio.

Maturity. The final date upon which the principal of a security becomes due and payable.

Medium Term Notes. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

Modified Duration. The percent change in price for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

Money Market. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

Municipal Securities. Securities issued by state and local agencies to finance capital and operating expenses.

Mutual Fund. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

Nationally Recognized Statistical Rating Organization (NRSRO). A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

Negotiable CD. A short-term debt instrument that 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. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

Premium. The difference between the par value of a bond and the cost of the bond, when the cost is above par.

Prepayment Speed. A measure of how quickly principal is repaid to investors in mortgage securities.

Prepayment Window. The time period over which principal repayments will be received on mortgage securities at a specified prepayment speed.

Primary Dealer. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

Prudent Person (Prudent Investor) Rule. An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Realized Yield. The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

Regional Dealer. A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

Repurchase Agreement. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

Safekeeping. A service to bank customers whereby securities are held by the bank in the customer's name.

Structured Note. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

Supranational. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

VOLATILITY. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.

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