

**AGENDA SUMMARY ITEM**

**Agenda Item #: R- 1**

**Agenda Item: PUBLIC HEARING FOR SECOND READING AND ADOPTION OF ORDINANCE NO. 1070, AMENDING CHAPTER 10. FINANCE AND TAXATION. AT ARTICLE IV. FUNDS AND ACCOUNTS OF VILLAGE; INVESTMENT POLICIES., SEC. 10-51. TO ADOPT AN AMENDED VILLAGE INVESTMENT POLICY AND AT ARTICLE IV. PURCHASING GUIDELINES., SEC. 10-94. TO UPDATE AND CLARIFY THE DELEGATION OF PURCHASING AUTHORITY.**

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As part of the annual review of the Village’s Investment Policy, Village staff, in coordination with the Village’s Investment Advisor, have recommended revisions to the policy structure to incorporate new statutory requirements, updated authorized investments, and revised portfolio composition standards. These proposed amendments are intended to ensure the Village’s investment practices continue to align with the core objectives of safeguarding principal, maintaining liquidity, and achieving a reasonable rate of return.

In addition, Village staff conducted a review of Sec. 10-94, Delegation of Authority, related to purchasing approvals. Based on this review, staff recommends the following amendments to the purchasing guidelines:

- Remove the Assistant Finance Director title from the approval authority for purchase levels ranging from \$5,000.00 to \$9,999.99 and replace this role with the Finance Director or designee.
- Remove the Assistant Finance Director title from the approval authority for purchase levels of \$10,000.00 to \$19,999.99, \$20,000.00 to \$50,000.00, and amounts exceeding \$50,000.00.
- Given the above title deletion from the \$5,000.00 to \$9,999.99 and \$10,000.00 to \$19,999.99 thresholds, these categories are now identical and were combined to reflect an approval level of \$5,000.00 to \$19,999.99.
- Clarify that all positions listed at each approval level are required to provide approval.
- Add “or designee” following the Finance Director at all approval levels.
- Require that any designee be formally identified in writing.

These proposed amendments are intended to streamline administrative processes while maintaining appropriate oversight and internal controls.

On February 19, 2026, Village Council approved Ordinance No. 1070 on first reading.

**Recommended Action:**

Upon Council review, staff recommends a motion to approve Ordinance No. 1070 on second reading.

Initiator	Village Manager Approval	Agenda Date	Village Council Action
Sharon Almeida Finance Director		3/19/2026	

**ORDINANCE NO. 1070**

AN ORDINANCE OF THE VILLAGE COUNCIL OF THE VILLAGE OF ROYAL PALM BEACH, FLORIDA, AMENDING CHAPTER 10. FINANCE AND TAXATION. OF THE VILLAGE CODE OF ORDINANCES AT SECTION 10-51. – INVESTMENT POLICIES. IN ORDER TO PROVIDE FOR THE ADOPTION OF AN AMENDED INVESTMENT POLICY FOR THE VILLAGE AND TO REMOVE THE PAGE NUMBER REFERENCE AND AT SECTION 10-94. – DELEGATION OF PURCHASING AUTHORITY. TO REMOVE REFERENCE TO SELECT STAFF AND ADD DESIGNEE LANGUAGE; PROVIDING THAT EACH AND EVERY OTHER SECTION AND SUBSECTION OF CHAPTER 10. FINANCE AND TAXATION. SHALL REMAIN IN FULL FORCE AND EFFECT AS PREVIOUSLY ADOPTED; PROVIDING A CONFLICTS CLAUSE, A SEVERABILITY CLAUSE AND AUTHORITY TO CODIFY; PROVIDING AN EFFECTIVE DATE; AND FOR OTHER PURPOSES.

**WHEREAS**, Section 218.415, *Florida Statutes*, an act relating to the investment of public funds, provides local governments with investment policy requirements; and

**WHEREAS**, the Village Council of the Village of Royal Palm Beach, Florida has concluded that certain revisions to its investment policies would be in the best interests of the Village; and

**WHEREAS**, it is the desire of the Village Council of the Village of Royal Palm Beach to adopt an amended investment policy which meets the requirements of Section 218.415, *Florida Statutes*; and

**WHEREAS**, the Village of Royal Palm Beach has held all required public hearings and has provided public notice in accordance with applicable State statutes and Village ordinances; and

**WHEREAS**, the Village Council of the Village of Royal Palm Beach believes these amendments to its Code of Ordinances to be in the best interests of its citizens.

**NOW, THEREFORE, BE IT ORDAINED BY THE VILLAGE COUNCIL OF THE VILLAGE OF ROYAL PALM BEACH, FLORIDA, FLORIDA THAT:**

**Section 1:** Chapter 10. Finance and Taxation. of the Village Code of Ordinances is hereby amended at Article IV. Funds and Accounts of Village; Investment Policies., Section 10-51. – Investment policies. in order to provide for the adoption of an amended investment policy for the Village and to remove the page number reference, providing that Section 10-51 shall hereafter read as follows:

**Sec. 10-51. - Investment policies.**

The Village Council of the Village of Royal Palm Beach hereby adopts a revised and expanded investment policy which meets the requirements for local governments as set forth at F.S. § 218.415, and this investment policy applies to all cash and investments held or controlled by the village with the exception of pension funds, trust funds, and funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds. Such investment policy, as amended from time to time, consisting of thirty five (35) pages is on file at the office of the village clerk and is available for inspection and copying during regular business hours.

**Section 2:** Chapter 10. Finance and Taxation. of the Village Code of Ordinances is hereby amended at Article VI. Purchasing Guidelines., Section 10-94. – Delegation of purchasing authority. to remove reference to select staff and add designee language; providing that Section 10-94. shall hereafter read as follows:

**Sec. 10-94. - Delegation of purchasing authority.**

All village purchases must have proper prior authorization and approval. Department directors or their designee(s) are required to approve all purchasing related documents prior to submitting same to finance for processing.

The approval levels are as follows (total purchase):

- (a) \$0.00—\$4,999.99: Department director.
- (b) \$5,000.00—\$19,999.99: Department director, ~~assistant~~ and finance director or designee.
- ~~(c)~~ ~~\$10,000.00—\$19,999.99: Department director, assistant finance director, finance director.~~
- ~~(c)~~(d) \$20,000.00—\$50,000.00: Department director, ~~assistant finance director,~~ finance director or designee, and village manager or designee.
- ~~(d)~~(e) Over \$50,000.00: Department director, ~~assistant finance director,~~ finance director or designee, village manager or designee, and village council.

Purchase amounts shall not be artificially divided to circumvent the approval requirements. Willful violation of these rules will result in termination of purchasing authority for the individual and/or department and may further result in disciplinary action against the individual committing the violation.

**Section 3:** The Village Council of the Village of Royal Palm Beach hereby adopts the investment policy attached hereto as Exhibit “A” and incorporates the same herein as if fully set forth in this ordinance.

**Section 4:** The Village Council of the Village of Royal Palm Beach names the Village Treasurer and the Village Manager as the individuals with the responsibility for providing oversight and direction in regard to the management of the investment program.

**Section 5:** The Village Manager is hereby authorized to take such steps and to execute on behalf of the Village Council such documents as may be hereafter required to implement the investment policy.

**Section 6:** Each and every other Section and Sub-section of Chapter 10. Finance and Taxation. shall remain in full force and effect as previously enacted.

**Section 7:** All Ordinances or parts of Ordinances in conflict be and the same are hereby repealed.

**Section 8:** Should any section or provision of this Ordinance or any portion thereof, any paragraph, sentence or word be declared by a court of competent jurisdiction to be invalid, such decision shall not affect the validity of the remainder of this Ordinance.

**Section 9:** Specific authority is hereby granted to codify this Ordinance.

**Section 10:** This Ordinance shall take effect immediately upon passage.

FIRST READING this 19<sup>th</sup> day of February, 2026.

SECOND AND FINAL READING this 19<sup>th</sup> day of March, 2026.

VILLAGE OF ROYAL PALM BEACH

\_\_\_\_\_  
JEFF HMARA, MAYOR

(SEAL)

ATTEST:

\_\_\_\_\_  
DIANE DISANTO, VILLAGE CLERK

**ORDINANCE NO. 1070**  
**EXHIBIT "A"**  
**VILLAGE OF ROYAL PALM BEACH INVESTMENT POLICY**

# Village of Royal Palm Beach

## Investment Policy



Approved: February 19, 2026

## Table of Contents

	Page
I. PURPOSE	3
II. SCOPE	3
III. INVESTMENT OBJECTIVES	3
IV. INVESTMENT DECISIONS	5
V. DELEGATION OF AUTHORITY	5
VI. STANDARDS OF PRUDENCE	6
VII. ETHICS AND CONFLICTS OF INTEREST	6
VIII. INTERNAL CONTROLS AND INVESTMENT PROCEDURES	6
IX. CONTINUING EDUCATION	7
X. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS	7
XI. MATURITY AND LIQUIDITY REQUIREMENTS	8
XII. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS	8
XIII. AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION	10
XIV. UNAUTHORIZED INVESTMENTS	20
XV. PERFORMANCE MEASUREMENTS	20
XVI. ACCOUNTING AND REPORTING	20
XVII. THIRD-PARTY CUSTODIAL AGREEMENTS	21
XVIII. MUNICIPAL RULE	22
XIX. RISK AND DIVERSIFICATION	22
XX. INVESTMENT POLICY ADOPTION AND AMENDMENTS	22
ATTACHMENT A: Glossary of Key Investment Terms	
ATTACHMENT B: Investment Pool/Fund Questionnaire	

VILLAGE OF ROYAL PALM BEACH, FLORIDA  
INVESTMENT POLICY

**I. PURPOSE**

The purpose of this Investment Policy (hereinafter "Policy" or "Investment Policy") is to set forth the investment objectives and parameters for the management of the public funds for the Village of Royal Palm Beach, Florida (hereinafter "Village"). This Policy, and the parameters set forth, are designed to safeguard the Village's funds, provide for the availability of operating and capital funds when needed, and promote an investment return competitive with comparable funds and financial market indices.

**II. SCOPE**

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

**III. INVESTMENT OBJECTIVES**

The following objectives will be applied in the management of the Village's funds:

**A. Safety of Principal**

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

1. Credit Risk – The Village will limit credit risk, which is the risk of loss due to default by the issuer by:

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

## 2. Interest Rate Risk

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

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

### B. Maintenance of Liquidity

The Village's investment portfolio shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. Periodic cash flow analyses will be completed in order to ensure that the portfolios are positioned to provide sufficient liquidity. By maintaining liquidity, the portfolio will inherently reinforce the safety of principal requirement. This is accomplished by structuring the investment program so that adequate liquidity in cash and cash equivalent investments is available to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the investment program should consist of liquidity investment strategies for short term and daily liquidity needs, and investment portfolios structured with securities with an active secondary or resale market. To facilitate this, the investment program may be partitioned into Short-term strategy focusing on cash equivalent or other investments with maturities of less than one year, and a Long-term strategy focusing on higher yielding investment opportunities having maturities of greater than one year. Section XI of this Policy establishes specific maturity and liquidity requirements to meet this objective.

### C. Return on Investment

The Village's investment portfolio shall be designed with the objective of maximizing a market rate of return throughout budgetary and economic cycles, taking into account the Village's investment risk constraints and liquidity needs. The Village shall maintain the level of investment of all idle bank balances as close to 100% as possible and shall actively manage its investment portfolio to the greatest extent possible, including the pooling of funds, with the constraints of safety and liquidity to take advantage of

prevailing or anticipated market conditions. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments shall be limited to relatively low risk securities as defined within this Investment Policy statement in anticipation of earning a fair return relative to the risk being assumed. The Village may utilize an active or passive investment strategy within the overall investment program. Securities within a passive managed investment portfolio will generally be held until maturity and securities in actively managed portfolios may be sold prior to maturity to maintain the appropriate portfolio characteristics of the designated investment strategy. Securities within the investment program may be sold in accordance with the investment program which include the following scenarios:

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

#### **IV. INVESTMENT DECISIONS**

The investment decisions for the Village's investment program must be based solely on pecuniary factors and may not subordinate the interests of the beneficiaries of the investments to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor. The weight given to any pecuniary factor must appropriately reflect a prudent assessment of its impact on risk or returns. As used in this Policy, "pecuniary factor" has the same meaning as defined in section 218.415(24) (a), Florida Statutes.

#### **V. DELEGATION OF AUTHORITY**

No person may engage in an investment transaction except as authorized under the terms of this Investment Policy. The responsibility for providing oversight and direction regarding the management of the investment program resides with the Village's Finance Director. The Finance Director is also designated as the Investment Officer of the Village and is responsible for investment decisions and activities, under the direction of the Village Manager. The day-to-day administration of the cash management program is handled by the Finance Department. The Finance Director shall hold primary responsibility for assuring compliance with the Village's Investment Policy. The Finance Director and Village Manager may, at any time, reassign the designation of Investment Officer to another competent employee upon written notification. The Investment Officer is authorized to make investments under this Policy as required or appropriate. The Village may employ an Investment Manager by written contract to assist in managing Village funds. The Investment Manager must be registered under the Investment Advisors Act of 1940.

Authorized investment signatories shall be limited to the Village Manager and the Finance Director.

## **VI. STANDARDS OF PRUDENCE**

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

Investments shall be made with judgement 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 probable income to be derived from the investment.

Any external individual or firm engaged to invest, monitor, or advise on Village assets shall be held to the higher “Prudent Expert” Standard. Under this standard, all parties responsible for investing, reinvesting, acquiring, retaining, managing, or disposing of Village funds must exercise the judgement, care, skill, prudence, and diligence that a prudent, knowledgeable, and experienced professional would apply under similar circumstances and with similar objectives.

## **VII. ETHICS AND CONFLICTS OF INTEREST**

Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Also, employees involved in the investment process shall disclose to the Village Manager any material financial interests in financial institutions that conduct business with the Village, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the Village’s investment program. Employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Village.

## **VIII. INTERNAL CONTROLS AND INVESTMENT PROCEDURES**

The Finance Director shall maintain a system of internal controls and operational procedures regarding the Village’s investment program. The internal controls should be designed to protect the Village’s assets and prevent the loss of funds

which might arise from fraud, embezzlement, error, mismanagement, or misrepresentation by Village employees or by third parties. The procedures should include at a minimum, references to safekeeping, separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts, collateral/depository agreements, and “delivery-vs-payment” procedures.

The Finance Director shall assign competent staff to maintain separation of duties within the Finance Department, to reconcile the Village’s general depositor, on a monthly basis, by comparing the Village’s general ledger with the applicable bank statements. The reconciliation would reveal any differences in banking transactions recorded, and the actual movement of funds.

The Finance Director shall assign competent accounting staff to reconcile investments reflected in the custodial statements with the Village’s records. The reconciliation will be reviewed each month by the Investment Officer or designee. The Village’s Investment Manager shall also reconcile the custody statement with the statements of all assets under management by the Investment Manager. Independent auditors, as a normal part of their annual financial audit or any other audit initiated by the Village, shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

#### **IX. CONTINUING EDUCATION**

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

#### **X. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS**

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

guidelines of this Policy and will be responsible for the selection of “Primary Government Securities Dealers”.

All approved non-primary securities dealers must qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). The Village’s Investment Manager will provide the Finance Director a list of approved brokers annually or as requested. The selection of broker/dealers used by an external investment advisor retained by the Village will be at the sole discretion of the investment advisor. For all transactions executed by the Finance Director, the approved broker must provide the following information prior to executing investment trades with the Village:

1. Annual financial statement, as well as most recent quarterly statement.
2. Regulatory history, through either the Office of the Comptroller of the Currency for dealer banks, or the NASD for securities firms.
3. Statement of any pending lawsuits materially affecting the firm’s business.

## **XI. MATURITY AND LIQUIDITY REQUIREMENTS**

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

### **A. Maturity Guidelines**

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

### **B. Liquidity Requirements**

In order to have an available source of funds to meet unexpected cash requirements, a minimum of the equivalent of three (3) months of projected payroll and operating expenditures will be invested with cash or cash equivalents, or vehicles that provide daily liquidity. The Village shall purchase only investments with an active secondary market, with the exception of non-negotiable Certificates of Deposit and other time and savings deposits. The monitoring and maintenance of required liquidity shall be the sole responsibility of the Village, and the Investment Manager is herein authorized to rely upon assurances from the Village that sufficient liquid funds are maintained outside of the managed portfolio.

## **XII. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS**

After the Finance Director or the Investment Manager has determined the approximate maturity date, issuer, type and any other security characteristics based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) qualified banks

and/or approved broker/dealers must be contacted and asked to provide bids/offers in writing on securities in question, when feasible. Bids/offers will be held in confidence until the bid/offer deemed to best meet the investment objectives is determined and selected.

From time to time, various government agencies, municipalities, and corporations announce the issue of new securities to the financial markets. Since all new issues bought in the primary market are sold at the same offering price by all members of the selling syndicate, the competitive bidding process offers no benefit. If the new, "To Be Announced" security meets the portfolio diversification and maturity requirements set forth in the Investment Policy, the Village may, at the discretion of the Finance Director or Investment Manager, place the investment with the broker/dealer or financial institution that initiated the investment opportunity, provided that the broker/dealer or financial institution is on the approved list.

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

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

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

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

This method may only be used:

- When time constraints due to unusual circumstances preclude the use of the competitive bidding process
- When no active market exists for the issue being traded due to the age or depth of the issue; or

- When security is unique to a single dealer, for example, a private placement

A competitive offer or bid request wherein only one offer or bid is received shall satisfy the requirements of competitive bidding of this Policy and such transactions may be awarded in accordance with comparison to current market price method described above. Overnight sweep repurchase agreements will not be bid but may be placed with the Village's depository bank relating to the demand account for which the repurchase agreement was purchased.

### **XIII. AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION**

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

The Village shall actively manage its investment portfolio to the greatest extent possible within the constraints of safety and liquidity to take advantage of prevailing or anticipated market conditions. The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the Village. Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the Finance Director and Investment Manager. The percentage allocations requirements for investment types and issuers are calculated based on the market value of each investment. Due to fluctuations in the aggregate invested balance, these maximum percentages may be exceeded from time to time and shall not require liquidation to realign the portfolio. However, consideration should be given to this matter when future purchases are made.

The maximum percentage allocation requirements and any minimum credit ratings requirements shall apply at the time the investment is made. Should the credit rating of a security owned by the Village be downgraded to a level below that required by this Investment Policy, the Finance Director and Investment Manager will review the credit situation and determine if such securities should be sold or retained in the portfolio based upon its remaining term to maturity, the credit outlook for the issuer, and other relevant facts and circumstances. If the decision is made to retain a downgraded security, it will be closely monitored by the Investment Manager and will be reported to the Finance Director on a quarterly basis. Investments not listed in this Policy are prohibited.

Village and Investment Manager Authorized Investment-Sector Type	Minimum Rating Requirement	Maturity Limits <sup>(1)</sup>	Maximum Allocation	Individual Issuer Limit
Cash & Cash Equivalents	N/A	N/A	100%	N/A
United States Government Securities	N/A	5 Years	100%	N/A
United States Government Agencies	N/A	5 Years	50%	N/A
Federal Instrumentalities (United States Government Sponsored Enterprises "GSE")*	N/A	5 Years	75%	40%
Interest Bearing Time Deposits or Savings Accounts with QPD	N/A	2 Years	50%	20%
Repurchase Agreements**	N/A	90 Days	25%	10%
Registered Investment Companies (Money Market Mutual Funds)	AAAm (or equivalent)	N/A	75%	75%
Intergovernmental Investment Pools (Stable Net Asset Value)	AAAm (or equivalent)	N/A	50%	N/A
Intergovernmental Investment Pools (Floating Net Asset Value)	AAAf (or equivalent)	N.A	25%	N/A
Florida PRIME Fund	AAAm	N/A	25%	N/A

Investment Manager Authorized Investment-Sector Type	Minimum Rating Requirement	Maturity Limits <sup>(1)</sup>	Maximum Allocation	Individual Issuer Limit
Mortgage Backed Securities "MBS"*	AA	5 Years	20%	15%
Municipal Bonds	Single "A" category by two NRSROs****	5 Years	25%	5%
Commercial Paper***	A-1 by S&P and P-1 by Moody's	270 Days	30%	5%
Corporate Notes***	Single "A" category by any NRSROs****	5 Years	30%	5%
Asset-Backed Securities (ABS)***	Double "A" category by any two NRSROs****	5 Years	25%	5%

(1) Maturity limits apply from the Settlement Date and apply to Average Life for Mortgage Backed and Asset Backed Securities  
 \*The combined maximum amount of available funds invested in Federal Instrumentalities and mortgage-backed securities will not exceed seventy-five percent (75%)  
 \*\*Securities authorized for collateral are negotiable direct obligations of the United States Government, Government Agencies, and Federal Instrumentalities with maturities under five (5) years and must have a market value for the principal and accrued interest of one hundred two percent (102%) of the value and for the term of the repurchase agreement.  
 \*\*\*The maximum amount of corporate investments will not exceed fifty percent (50%). Therefore, the total allocation to Commercial Paper, Corporate Notes, and Asset Backed Securities shall not exceed fifty percent (50%).  
 \*\*\*\*National Recognized Statistical Rating Organization (NRSRO).

The following sectors (A-J) may be purchased by the Village's Finance Director or by the Village's Investment Manager.

**A. Cash and Cash Equivalents**

1. Investment Authorization  
 The Finance Director and Investment Manager may invest in cash and cash equivalent investments that provide daily and short-term liquidity.
2. Portfolio Composition  
 A maximum of one hundred percent (100%) of the portfolio market value may be invested in the cash and cash equivalent investments.

**B. United States Government Securities**

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

- Cash Management Bills;
- Treasury Bills, Treasury Bonds, Treasury Notes, Treasury Strips, Treasury TIPS; and
- Treasury Securities – State and Local Government Series (“SLGS”).

2. Portfolio Composition

A maximum of one hundred percent (100%) of the portfolio market value may be invested in the United States Government Securities.

3. Maturity Limitations

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

C. United States Government Agencies

1. Investment Authorization

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

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

2. Portfolio Composition

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

3. Maturity Limitations

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

D. Federal Instrumentalities (United States Government Sponsored Enterprises)

1. Investment Authorization

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

- Federal Farm Credit Bank (“FFCB”);
  - Federal Home Loan Bank or its member banks (“FHLB”);
  - Federal National Mortgage Association (“FNMA”);
  - Federal Home Loan Mortgage Corporation (Freddie-Macs).
2. Portfolio Composition
 

A maximum of seventy-five percent (75%) of the portfolio market value may be invested in Federal Instrumentalities.
  3. Limits on Individual Issues
 

A maximum of forty percent (40%) of the portfolio market value may be invested in any one issuer.
  4. Maturity Limitations
 

The maximum length to maturity for an investment in any Federal Instrumentality security is five (5) years from the date of trade settlement.
- E. Interest Bearing Certificates of Deposit, Demand Deposit Accounts, Saving Accounts, NOW Checking Accounts or Money Market Accounts with Qualified Public Depository
1. Investment Authorization
 

The Finance Director and Investment Manager may deposit public funds in non-negotiable interest bearing certificates of deposit, (including through the Certificate of Deposit Account Registry Service, or CDARS), demand deposit accounts, savings accounts, NOW checking accounts and money market accounts in banks organized under the law of this state and/or in national banks organized under the laws of the United States and doing business and situated in the State of Florida, provided that such banks are Qualified Public Depositories (QPDs) and any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes. QPDs are confirmed by the Florida Chief Financial Officer and the Florida Department of Financial Services and the list of current QPDs can be obtained on the Florida Department of Financial Services website.
  2. Portfolio Composition
 

A maximum of fifty percent (50%) of the portfolio market value may be invested in non-negotiable interest-bearing deposits secured by the Florida Security for Public Deposit Act, Chapter 280, Florida Statutes, as described herein.
  3. Limits on Individual Issuers
 

A maximum of twenty percent (20%) of the portfolio market value may be deposited with any one financial institution, except for deposits with the Village’s primary treasury depository institution.

4. Maturity Limitation

The maximum maturity on any deposit shall be no greater than two (2) years from the date of trade settlement.

F. Repurchase Agreements

1. Investment Authorization

- a. The Finance Director and Investment Manager may enter into repurchase agreements composed of only those investments authorized by Section XIII. B, C and D. All financial institutions are required to sign the Village's Master Repurchase Agreement prior to the execution of a repurchase agreement transaction. The Village may use the Securities Industry and Financial Markets Association ("SIFMA") Master Repurchase Agreement Form. The agreement must be reviewed by the Village Attorney prior to executing a Repurchase Agreement transaction.
- b. A third-party custodian with whom the Village has a current custodial or safekeeping agreement shall hold the collateral for all repurchase agreements with a term longer than one (1) business day. Overnight repurchase agreement collateral for the Village's "Sweep Accounts", if any, shall be held at the Village's custodial or safekeeping institution. A clearly marked receipt that shows evidence of ownership must be supplied to the Finance Director and retained for all repurchase agreements that are not overnight sweep accounts.
- c. Securities authorized for collateral must have maturities under ten (10) years and have market value for the principal and accrued interest equal to at least one hundred two percent (102%) of the value and for the term of the repurchase agreement. Immaterial short-term deviations from one hundred two percent (102%) requirement are permissible only upon approval of the Finance Director.

2. Portfolio Composition

A maximum of twenty-five percent (25%) of the portfolio market value may be invested in repurchase agreements.

3. Limits on Individual Issuers

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

4. Limits on Maturities

The maximum length to maturity of any repurchase agreement is ninety (90) days from the date of trade settlement.

## G. Registered Investment Companies (Money Market Mutual Funds)

### 1. Investment Authorization

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

### 2. Portfolio Composition

A maximum of seventy-five percent (75%) of the portfolio market value may be invested in money market funds.

### 3. Limits on Individual Issuers

A maximum of seventy-five percent (75%) of the portfolio market value may be invested with any one money market fund.

## H. Intergovernmental Investment Pool (Stable Net Asset Value)

### 1. Investment Authorization

The Finance Director and Investment Manager may invest in intergovernmental investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in Section 163.01, Florida Statutes and provided that said funds contain no derivatives and share value can never be less than \$1. The stable net asset value intergovernmental investment pool must have a rating of AAAM or equivalent.

### 2. Portfolio Composition

A maximum of fifty percent (50%) of available funds may be invested in intergovernmental investment pools with a stable net asset value.

### 3. Due Diligence Requirements

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

## I. Intergovernmental Investment Pool (Floating Net Asset Value)

### 1. Investment Authorization

The Finance Director and Investment Manager may invest in intergovernmental investment pools that are authorized pursuant to Florida Interlocal Cooperation Act of 1969, as provided in Section 163.01,

Florida Statutes. The floating net asset value intergovernmental investment pool must have a rating of AAf or equivalent.

2. Portfolio Composition

A maximum of twenty-five percent (25%) of available funds may be invested in intergovernmental investment pools with a floating net asset value.

3. Due Diligence Requirements

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

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

1. Investment Authorization

The Finance Director may invest in the Florida Prime.

2. Portfolio Composition

A maximum of twenty-five percent (25%) of available funds may be invested in the Florida Prime.

In addition to the permitted sectors defined in A-J, the Village's Investment Manager may also purchase fixed income sectors K-O. The securities defined in K-O generally require additional resources offered by an Investment Manager.

K. Agency Mortgage-Backed Securities (MBS)

1. Investment Authorization

The Investment Manager may invest in mortgage-backed securities (MBS) which are based on mortgages that are guaranteed by a government agency or GSE for payment of principal and a guarantee of timely payment.

2. Portfolio Composition

A maximum of twenty percent (20%) of available funds may be invested in MBS.

3. Limits on Individual Issuers

A maximum of fifteen percent (15%) of available funds may be invested with any one MBS issuer.

4. Maturity Limitations

A maximum length to maturity for an investment in any MBS is five (5) years based on the weighted average life of the security at time of settlement.

The maturity of a mortgage-backed securities shall be considered the date corresponding to its average life. This date reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security's description.

#### L. Municipal Bonds

##### 1. Investment Authorization

The Investment Manager may invest in state and/or local government taxable and/or tax-exempt debt, general obligation and/or revenue bonds. Must be rated in the single A category by at least two NRSRO's.

##### 2. Portfolio Composition

A maximum of twenty-five percent (25%) of the portfolio market value may be invested in obligations of state and local governments.

##### 3. Limits on Individual Issuers

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

##### 4. Maturity Limitations

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

#### M. Commercial Paper

##### 1. Investment Authorization

The Investment Manager may invest in commercial paper of any United States company that is rated, at the time of purchase, "Prime-1" by Moody's and minimum "A-1" by Standard & Poor's (highest tier commercial paper).

##### 2. Portfolio Composition

A maximum of thirty percent (30%) of the portfolio market value may be directly invested in prime commercial paper. The maximum total allocation to Commercial Paper, Corporate Notes, and Asset-Backed Securities shall not exceed fifty percent (50%).

##### 3. Limits on Individual Issuer

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

##### 4. Maturity Limitations

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

## N. Corporate Notes

### 1. Investment Authorization

The Investment Manager may invest in corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States rated in the “A” category by Standard & Poor’s, or the equivalent by another rating agency at the time of purchase.

### 2. Portfolio Composition

A maximum of thirty percent (30%) of the portfolio market value may be invested in obligations of corporate notes. The maximum total allocation to Commercial Paper, Corporate Notes, and Asset-Backed Securities shall not exceed fifty percent (50%).

### 3. Limits on Individual Issuers

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

### 4. Maturity Limitations

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

## O. Asset-Backed Securities (ABS)

### 1. Investment Authorization

The Investment Manager may invest in asset-backed securities (ABS) rated in the “AAA” category by any two NRSRO’s at the time of purchase.

### 2. Portfolio Composition

A maximum of twenty-five percent (25%) of available funds may be invested in ABS. The maximum total allocation to Commercial Paper, Corporate Notes, and Asset-Backed Securities shall not exceed fifty percent (50%).

### 3. Limits on Individual Issuers

A maximum of five percent (5%) of available funds may be invested with any one issuer.

### 4. Maturity Limitations

A maximum length to maturity for an investment in any ABS is five (5) years from the date of trade settlement. The maturity of asset-backed securities shall be considered the date corresponding to its average life. This date reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security’s description.

#### **XIV. UNAUTHORIZED INVESTMENTS**

Investments in any derivative products or the use of reverse repurchase agreements are prohibited. A “derivative” is defined as a financial instrument that value of which depends on, or is derived from, the value of one or more underlying assets or indices or asset values. All other investments not specifically stated under “Allowable Investments” are prohibited.

#### **XV. PERFORMANCE MEASUREMENTS**

In order to assist in the evaluation of the portfolios' performance, the Village will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks allow the Village to measure its returns against similar investment strategies through the use of industry recognized benchmarks.

1. For the short-term investment program (strategies with less than 12 months maturity), the S&P Rated GIP Index, or similar index, will be used as a benchmark as compared to the portfolios' net book value rate of return for current operating funds.

Investment performance of funds designated as core funds and other funds that have a long-term (greater than 12 months average maturity) investment horizon, and are actively managed, will be compared to an appropriate index comprised of having a duration and asset mix that approximates that of the portfolios. The index will be utilized as a benchmark to be compared to the portfolio's total rate of return. Examples of an appropriate index include, although not limited to the ICE BofAML Merrill Lynch 1-3 Year U.S. Treasury Index. The Village will determine an appropriate benchmark based upon the characteristics of the longer-term core portfolio(s).

2. Investment Managers will report on performance on both book value and total rate of return basis and compare results to the above-stated benchmarks for all actively managed portfolios. Investment Managers will report on book value for passively managed portfolios.

#### **XVI. ACCOUNTING AND REPORTING**

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

The Finance Director or Investment Manager shall prepare a Quarterly Investment Report which shall be provided to the Village Manager. The quarterly investment report is available to the public upon request. Schedules in the quarterly report should include the following:

1. A listing of investments by type, book value, and market value as of the report date as well as portfolio activity during the period.
2. Weight, by percentage, of each security type within the portfolio.
3. Investment balance at the end of the quarter.
4. Income earned for the quarter and year-to-date.
5. Comparison of quarterly and calendar year-to-date performance to authorized performance benchmarks.
6. Weighted average maturity of the portfolio.

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

An investment report on the Village's investment funds shall be provided to the Village Council annually. This report shall include the same information as the quarterly reports described above.

## **XVII. THIRD-PARTY CUSTODIAL AGREEMENTS**

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

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

The custodian shall provide the Finance Director with safekeeping receipts that provide detailed information on the securities held by the custodian. In addition, the custodian shall report at least quarterly, and the Finance Director shall verify the reports. Settlement transactions between a broker/dealer and the custodian on behalf of the Village that involve a settlement of investments purchased or sold by the Finance Director or Investment Manager must be made on a "delivery vs payment" basis to ensure that the custodian will have the security

or money, as appropriate, in hand on behalf of the Village at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

#### **XVIII. MUNICIPAL ADVISOR RULE**

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

#### **XIX. RISK DIVERSIFICATION**

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

- A. Limiting investments to avoid over-concentration in securities from a specific issuer or of a specific type.
- B. Staggering investment maturities to avoid undue concentration in a specific maturity sector.
- C. Limiting the duration (price sensitivity and maturity) of the investment portfolio.
- D. Investing in only high-grade securities with low credit risk.
- E. Maintaining a portion of the portfolio in readily available funds such as state investment pools, money market mutual funds, or overnight repurchase agreements.

#### **XX. INVESTMENT POLICY ADOPTION AND AMENDMENTS**

The Investment Policy is official upon its adoption by the Village Council. The Finance Director shall review the Policy annually and, if necessary, prepare any proposed amendments to the Investment Policy and submit them to the Village Manager and the Village Council for review and approval.

Attachment A  
Glossary of Key Investment Terms

The following is a glossary of key investing terms, many of which appear in this Investment Policy. This glossary clarifies the meaning of investment terms generally used in cash and investment management.

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

**Agency.** See "Federal Agency Securities."

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

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

**Average Life.** The average number of years for each dollar of unpaid principal on a debt security, such as a bond or mortgage-backed security, to be repaid.

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

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

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

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

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

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

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

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

**Book Entry Securities.** Securities that are recorded in a customer's account electronically through one of the financial markets electronic delivery and custody systems, such as the Fed Securities wire, OTC, and PTC

(as opposed to bearer or physical securities). The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors' concerns about the certificates themselves. The vast majority of securities are now book entry securities.

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

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

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

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

**Call Option.** The right, but not the obligation, of an issuer of a security to redeem a security at a specified value and at a specified date or dates prior to its stated maturity

date. Most fixed-income calls are a par, but can be at any previously established price. Securities issued with a call provision typically carry a higher yield than similar securities issued without a call feature. There are three primary types of call options (1) European - one-time calls, (2) Bermudan - periodically on a predetermined schedule (quarterly, semi-annual, annual), and (3) American - continuously callable at any time on or after the call date. There is usually a notice period of at least 5 business days prior to a call date.

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

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

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

**Collateralization.** Process by which a borrower pledges securities, property, or other deposits for securing the repayment of a loan and/or security.

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

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

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

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

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

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

**Custody.** Safekeeping services offered by a bank, financial institution, or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the

customer's securities, the collection and disbursement of income, securities settlement, and market values.

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

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

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

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

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

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

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

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

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

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

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

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

**Fannie Mae.** See "Federal National Mortgage Association."

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

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

**Fed.** See "Federal Reserve System."

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

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

**Federal Deposit Insurance Corporation ("FDIC").** Federal agency that insures deposits at commercial banks, currently to a limit of \$250,000 per depositor per bank.

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

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

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

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

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

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

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

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

national and state banks throughout the nation. It is headed by the seven-member Board of Governors known as the "Federal Reserve Board" and headed by its Chairman.

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

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

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

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

**Ginnie Mae.** See "Government National Mortgage Association."

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

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

**Government Securities.** An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, Bonds, and SLGS."

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

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

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

**Interest-Only (10) STRIP.** A security based solely on the interest payments from the bond. After the principal has been repaid, interest payments stop and the value of the

security falls to nothing. Therefore, IOs are considered risky investments. Usually associated with mortgage-backed securities.

**Internal Controls.** An internal control structure ensures that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management.

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

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

**Investment Adviser Act of 1940.** Federal legislation that sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

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

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

**Local Government Investment Pool ("LGIP").** An investment by local governments in which their money is pooled as a method for managing local funds, (e.g., Florida State Board of Administration's Florida Prime Fund).

**Long-Term Core Investment Program.** Funds that are not needed within a one-year period.

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

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

**Master Repurchase Agreement.** A widely accepted standard agreement form published by the Securities Industry and Financial Markets Association (SIFMA) that is used to govern and document Repurchase Agreements and protect the interest of parties in a repo transaction.

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

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

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

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

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

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

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

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

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

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

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

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

**Net Asset Value.** The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets including securities, cash, and any accrued earnings, then subtracting the total assets from the fund's liabilities, and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.)

$$[(\text{Total assets}) - (\text{Liabilities})]/(\text{Number of shares outstanding})$$

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

**Offered Price.** See also "Ask Price."

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

**Par Value.** The face value, stated value, or maturity value of a security.

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

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

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

**Primary Dealer.** A designation given to certain government securities dealer by the Federal Reserve Bank of New York. Primary dealers can buy and sell government securities directly with the Fed. Primary dealers also submit daily reports of market activity and security positions held to the Fed and are subject to its informal oversight. Primary dealers are the largest buyers and sellers by volume in the U.S. Treasury securities market.

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

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

**Prudent Expert Rule.** Standard that requires that a fiduciary manage a portfolio with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. This statement differs from the "prudent person" rule in that familiarity with such matters suggests a higher standard than simple prudence.

**Prudent Investor Standard.** Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. More stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

**Qualified Public Depository** - Per Subsection 280.02(26), F.S., "qualified public depository" means any bank, savings bank, or savings association that:

1. Is organized and exists under the laws of the United States, the laws of this state or any other state or territory of the United States.
2. Has its principal place of business in this state or has a branch office in this state which is authorized under the laws of this state or of the United States to receive deposits in this state.
3. Has deposit insurance under the provision of the Federal Deposit Insurance Act, as amended, 12 U.S.C. ss.1811 et seq.
4. Has procedures and practices for accurate identification, classification, reporting, and collateralization of public deposits.
5. Meets all requirements of Chapter 280, F.S.
6. Has been designated by the Chief Financial Officer as a qualified public depository.

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

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

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

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

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

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

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

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

**Reference Notes:** FHLMC's intermediate-term debt program with issuances of 2, 3, 5, 10, and 30-year maturities. Initial issuances range from \$2 - \$6 billion with re-openings ranging \$1 - \$4 billion.

The notes are high-quality bullet structures securities that pay interest semiannually. Issues under the Reference program constitute the same credit standing as other FHLMC notes; they simply add organization and liquidity to the intermediate- and long- term Agency market.

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

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

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

**Sallie Mae.** See “Student Loan Marketing Association”.

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

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

**Securities Industry and Financial Markets Association (“SIFMA”).** The bond market trade association representing the largest securities markets in the world. In addition to publishing a Master Repurchase Agreement, widely accepted as the industry standard document for Repurchase Agreements, the SIFMA also recommends bond market closures and early closes due to holidays.

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

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

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

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

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

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

**Swap.** Trading one asset for another.

**Student Loan Marketing Association (“SLMA” or “Sallie Mae”).** One of the large Federal Agencies. A federally chartered public corporation (GSE) created to provide liquidity and a secondary market for lenders for loans to students and education institutions. In 1997, SLMA initiated a process of unwinding its status as a GSE; however, until the process is

complete, all debt issued will be considered GSE debt until maturity. SLMA debt is not an obligation of, nor is it guaranteed by the U.S. Government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and education sector. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its "global note" program.

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

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

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

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

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

**Treasury Bonds.** Long-term interest-bearing debt securities backed by the U.S. government and issued with maturities of ten years and longer by the U.S. Department of the Treasury.

**Treasury Notes.** Intermediate interest-bearing debt securities backed by the U.S. government and issued with maturities ranging from one to ten years by the U.S.

Department of the Treasury. The Treasury currently issues 2-year, 3-year, 5-year, and 10-year Treasury Notes.

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

**Uniform Net Capital Rule.** SEC Rule 15c3-1 that outlines the minimum net capital ratio (ratio of indebtedness to net liquid capital) of member firms and non-member broker/dealers.

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

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

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

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

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

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

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

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

## Attachment B

### Investment Pool/Fund Questionnaire

1. A description of eligible investment securities, and a written statement of Investment Policy and objectives.
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited. Provide the most recent audited financial statements.
4. A description of who may invest in the program, how often, and what size deposit and withdrawal are allowed.
5. A schedule for receiving statements and portfolio listings. Provide a list of current holdings.
6. Are reserves, retained earnings, etc. utilized by the pool/fund?
7. A fee schedule, and when and how is it assessed.
8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?
9. A description of the Board and how the fund is governed.
10. A description of the fund manager's credit research process and internal credit team. Describe the allocation (percentage) of internal credit research and external research.