

Orange County Transportation Authority
Fiscal Year 2021-2022 Investment Policy
July 1, ~~June 9-10, 2021~~

1. PURPOSE

This Investment Policy sets forth the investment guidelines for all funds of the Orange County Transportation Authority (OCTA) invested on and after July 1, 2021~~June 9-10, 2021~~. The objective of this Investment Policy is to ensure OCTA's funds are prudently invested to preserve capital, provide necessary liquidity and to achieve a market-average rate of return through economic cycles.

Investments may only be made as authorized by this Investment Policy. ~~—~~The OCTA Investment Policy conforms to the California Government Code (the Code) as well as customary standards of prudent investment management. ~~—~~Irrespective of these policy provisions, ~~—~~should the provisions of the Code be or become more restrictive than those contained herein, such provisions will be considered immediately incorporated into the Investment Policy and adhered ~~—~~to.

2. SCOPE

The policy applies to the investment of all funds, excluding the investment of employees' retirement funds, separate trusts, Environmental Mitigation Program Endowment Fund and funds invested separately under Bond Indenture Agreements (Bond Agreements). Bond Funds and Accounts (Bond Funds) shall be invested in the securities permitted by the applicable Bond Agreements. If the Bond Agreements are silent as to the permitted investments, the Bond Funds will be invested in the securities permitted by this Policy. Notwithstanding the other provisions of this Policy, the percentage limitations listed elsewhere in this Policy do not apply to Bond Funds.

3. INVESTMENT OBJECTIVES

The primary objectives, in priority order, of investment activities shall be:

- a. **Safety of Principal** -- Safety of principal is the foremost objective of the OCTA. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institutional default, broker-dealer default, or erosion of market value of the securities.
- b. **Liquidity** -- It is important that the portfolio contain investments for which there is an active secondary market, and which offer the flexibility to be easily sold at any time with minimal risk of loss of either the principal or interest based upon then prevailing rates.
- c. **Total Return** -- The OCTA's portfolio shall be designed to attain a market-average rate of return through economic cycles.
- d. **Diversification** -- Finally, the OCTA shall diversify its portfolio(s) to avoid incurring unreasonable market risks.

4. PRUDENCE

OCTA's Board of Directors or persons authorized to make investment decisions on behalf of OCTA are trustees and fiduciaries subject to the prudent investor standard.

The standard of prudence to be used by investment officials shall be the "prudent investor" standard as defined in the Code below and shall be applied in the context of managing an overall portfolio. OCTA's investment professionals acting in accordance with written procedures and the Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control developments.

The Prudent Investor Standard: 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 OCTA, 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.

5. ETHICS AND CONFLICTS OF INTEREST

OCTA's officers and employees involved in the investment process shall not participate in personal business activity that conflicts with the proper execution of OCTA's investment program, or which impairs their ability to make impartial investment decisions. OCTA's investment professionals and Treasury/Public Finance Department employees are not permitted to have any material financial interests in financial institutions that conduct business with OCTA, and they are not permitted to have any personal financial/investment holdings that have a material effect on the performance of OCTA's investments.

6. DELEGATION OF AUTHORITY

Authority to manage OCTA's investment program is derived from an order of the Board of Directors. Management responsibility for the investment program is hereby delegated to OCTA's Treasurer pursuant to Section 53607 of the Code. On an annual basis, the Board of Directors is required to renew the authority of OCTA's Treasurer to invest or reinvest OCTA funds. The Treasurer is hereby authorized to delegate his authority as he determines to be appropriate. No person may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all actions undertaken and shall establish a system of controls to regulate the activities of subordinate professionals.

The Treasurer shall develop administrative procedures and internal control, consistent with this Investment Policy, for the operation of OCTA's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of OCTA.

7. RESPONSIBILITIES

The Finance and Administration Committee of the OCTA Board of Directors, subject to the approval of the OCTA Board of Directors, is responsible for establishing the Investment Policy and ensuring investments are made in compliance with this Investment Policy. This Investment Policy shall be reviewed annually by the Board of Directors at a public meeting.

The Treasurer is responsible for making investments and for compliance with this policy pursuant to the delegation of authority to invest funds or to sell or exchange securities. Pursuant to Section 53607 of the Code, the Treasurer shall make a monthly report to the Board of Directors. The OCTA provides a monthly report to the Finance and Administration Committee and the Board of Directors in accordance with Section 53607 of the Code

The Treasurer is responsible for establishing a procedural manual for OCTA's investment program and for having an annual independent audit performed on OCTA's investments.

8. COMPLIANCE

The OCTA has provided each of its portfolio managers with a copy of this Investment Policy as a part of their contract and expects its portfolio managers to invest each portfolio they manage for OCTA in accordance with the provisions of the Investment Policy or the respective Bond Agreements as applicable. When diversification limits are exceeded by a portfolio manager, the Treasurer will document the situation and include a write-up in the monthly Debt and Investment Report to the Finance and Administration Committee and the Board of Directors.

The OCTA Treasurer is responsible for verifying each portfolio manager's compliance as well as OCTA's entire portfolio's compliance with the provisions of the Investment Policy.

If OCTA's Treasurer, in his sole discretion, finds that a portfolio manager has made an investment that does not comply with the provisions of the Investment Policy, the Treasurer shall immediately notify the portfolio manager of the compliance violation. At that point, the portfolio manager is on probation for a period of one year. The second time a violation occurs while the portfolio manager is on probation, the Finance and Administration Committee shall review the error and may request that the portfolio manager responsible for the compliance violation meet with the Chair of the Finance and Administration Committee and the Treasurer as soon as practical at which time it will be decided whether the Board of Directors will be notified of the violation.

If OCTA's Treasurer finds that the portfolio manager has made a third investment while on probation that does not comply with the provisions of the Investment Policy, the Treasurer shall notify the Board of Directors of the compliance violations. OCTA may terminate services for its convenience any time by providing at least 30 days written notice.

9. FINANCIAL BENCHMARKS

In order to establish a basis for evaluating investment results, the Authority uses two nationally recognized fixed income security performance benchmarks to evaluate return on investments. The ICE/BAML 1-3-year Treasury Index and the ICE/BAML 1–3-year AAA-A U.S. Corporate and Government Index benchmarks are used for OCTA’s short-term portfolios.

10. SAFEKEEPING AND CUSTODY

To protect against potential losses by collapse of individual securities dealers, all deliverable securities owned by OCTA, including collateral on repurchase agreements, shall be held in safekeeping by a third-party bank trust department acting as agent for OCTA under the terms of a custody agreement executed by the bank and by OCTA. All deliverable securities will be received and delivered using standard delivery-versus-payment procedures.

11. PERMITTED INVESTMENTS

Maturity and Term

All investments, unless otherwise specified, are subject to a maximum stated term of five years. Maturity shall mean the stated final maturity or the mandatory redemption date of the security, or the unconditional put option date if the security contains such a provision. Term or tenure shall mean the remaining time to maturity from the settlement date.

The Board of Directors must grant express written authority to make an investment or to establish an investment program of a longer term no less than three months prior to the investment

Eligible Instruments and Quality

OCTA policy is to invest only in high quality instruments as permitted by the Code, subject to the limitations of this Investment Policy. If an eligible security already contained in the Authority’s portfolio is subsequently placed on “Negative Credit Watch” (Credit Watch) by any of the three Nationally Recognized Statistical Rating Organizations (NRSROs), or a purchase is made of a security already on “Negative Credit Watch” (Credit Watch) by any of the three NRSROs, which is permitted under this Investment Policy, then the security will be handled under the provisions of Credit Rating Actions. Percentage holding limits and credit quality minimums in this section are applicable at the time of purchase.

11-1. OCTA NOTES AND BONDS

Notes and bonds issued by OCTA, including notes and bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by OCTA or by a department, board, agency or authority of OCTA which may bear interest at a fixed or floating rate.

11-2. U.S. TREASURY OBLIGATIONS

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

11-3. FEDERAL AGENCY OR U.S. GOVERNMENT SPONSORED ENTERPRISES

Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or the U.S. government sponsored enterprises.

11-4. MUNICIPAL DEBT

Such instruments defined as being issued by a local or state agency, including:

- A. Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.
- B. Bonds, notes, warrants, or other evidence of indebtedness of a local agency within this state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or local agency or by a department, board, agency or authority of the local agency.
- C. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.
- D. Defeased state and local obligations (as defined in A, B, or C above) as long as the obligations have been legally defeased with State and Local Government Series (SLGS), U.S. Treasury, and U.S. Agency securities and such obligations mature or otherwise terminate within five years of the date of purchase.

11-5. BANKERS ACCEPTANCES

Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.

11-6. COMMERCIAL PAPER

The entity that issues commercial paper shall meet the following conditions:

- A. be issued by corporations that have debt other than commercial paper, if any, that is rated in the ratings category of A or its equivalent or higher by two NRSROs
- B. be issued by corporations organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000)

- C. may not purchase more than 10 percent of the outstanding paper of any single issuer.

11-7. NEGOTIABLE CERTIFICATES OF DEPOSIT

Negotiable Certificates of Deposit issued by a nationally or state-chartered bank or state, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federally licensed or state licensed branch of a foreign bank.

11-8. REPURCHASE AGREEMENTS

Repurchase agreements collateralized by U.S. Treasuries or Agency securities as defined in the Investment Policy with any registered broker-dealer subject to the Securities Investors Protection Act or any commercial banks insured by the FDIC provided:

- A. a Securities Industry and Financial Markets Association (SIFMA) master repurchase agreement and a tri-party agreement, if applicable, representing a custodial undertaking in connection with a master repurchase agreement, which governs the transaction and has been signed by OCTA; and
- B. the securities are held free and clear of any lien by OCTA's custodian or trustee or an independent third party acting as agent "Agent" for the custodian or trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million and the custodian or trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for OCTA's custodian or trustee; and
- C. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of OCTA's custodian or trustee and OCTA; and
- D. the Agent provides OCTA's custodian or trustee and OCTA with valuation of the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required 102 percent collateral percentage is not restored within two business days of such valuation.

11-9. MEDIUM TERM NOTES

Medium term notes are defined as all corporate and depository institution debt securities issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

11-10. MONEY MARKET MUTUAL FUNDS

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the

Investment Company Act of 1940. Shares may not represent more than 10 percent of the funds or pool's asset and no more than 10% of the total portfolio may be invested in shares of any one money market mutual fund.

11-11. MORTGAGE OR ASSET-BACKED SECURITIES

Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond.

11-12. SUPRANATIONALS

US Dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

11-13. STATE OF CALIFORNIA LOCAL AGENCY INVESTMENT FUND (LAIF)

LAIF is a pooled fund managed by the State Treasurer referred to in Section 16429.1 of the Code. All securities are purchased under the authority of the Code Section 16430 and 16480.4.

11-14. ORANGE COUNTY TREASURY INVESTMENT POOL (OCIP)

The OCIP is a pooled fund managed by the Orange County Treasurer and is comprised of two funds, the Money Market Fund and Extended Fund. The Money Market Fund is invested in cash equivalent securities. The Extended Fund is for cash requirements past one year and is based on the Code Sections 53601 and 53635. These pools are based on the investment requirements detailed in Government Code Sections 53600 et seq. and 53630 et seq.

11-15. INVESTMENT POOLS

Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations as authorized under the pools investment policy and that comply with the investment restrictions of Government Code Sections 53600 through 53610 and Section 53630.

11-16. VARIABLE AND FLOATING RATE SECURITIES

Variable and floating rate securities are restricted to investments in securities with a final maturity of not to exceed five years as described above, must utilize traditional money market reset indices such as U. S. Treasury bills, Federal Funds, commercial paper or LIBOR (London Interbank Offered Rate) or SOFR (Secured Overnight Financing Rate), and must meet all minimum credit requirements previously detailed in the Investment Policy. Investments in floating rate securities whose reset is calculated using more than one of the above indices are not permitted, i.e. dual index notes.

11-17. BANK DEPOSITS

Bank deposits in California banks which have a minimum short-term rating of A-1, or its equivalent or higher, by a NRSRO. Bank deposits are required to be collateralized as specified under Government Code section 53630. The Treasurer shall draft and execute a contract describing provisions for bank deposits.

11-18. DERIVATIVES

Derivatives are to be used as a tool for bonafide hedging investments only where deemed appropriate. Derivatives shall not be used for the purpose of interest rate speculation.

Derivative products in any of the eligible investment categories listed above may be permitted. The Treasurer has the sole responsibility for determining which prospective investments are derivatives. Each prospective investment in a derivative product must be documented by the Treasurer as to the purpose and specific financial risk being hedged. Each such investment must be approved by the Finance and Administration Committee prior to entering into such investment.

No investments shall be permitted that have the possibility of returning a zero or negative yield if held to maturity. In addition, the investment in inverse floaters, range notes, strips derived from mortgage obligations, step-up notes and dual index notes are not permitted investments.

Credit Rating Actions

Rating criteria will apply at the time of purchase of a security and monitored for changes while retained within OCTA's portfolio. A security whose credit rating **is** on Credit Watch at the time of purchase, has been placed on Credit Watch, or whose credit rating has been downgraded (including downgrades resulting in the rating falling below the minimum credit rating requirements) subsequent to the time of purchase, is not a violation of OCTA's Investment Policy.

For any security, whose credit rating falls below the minimum required rating as per the California Government Code and the Investment Policy or placed on Negative Credit Watch for imminent downgrade to below the minimum required ratings, the Treasurer will make the decision whether to continue to retain or sell the security. For all other security rating downgrades, and for securities placed on Negative Credit Watch, the decision to retain or sell the security will be left to the Investment Manager, and OCTA will be notified immediately of the decision along with rationale regarding the decision to retain or sell.

~~Investment Managers are to notify OCTA (the Director of Finance and Administration, the Department Manager for Treasury and Public Finance, and the Department Analyst) regarding any security whose credit rating has been placed on Credit Watch or downgraded. The notice shall include a risk assessment based on OCTA's Investment Objectives, and a recommendation to retain or sell the security. The security shall be immediately reviewed by~~

~~the Treasurer for action. The decision to retain the security, sell the security, or other action shall be approved by the Treasurer.~~

The Authority will notify the Board through its monthly reporting practices of all securities on Credit Watch at the time of purchase, placed on Credit Watch or downgraded during the reporting period. Securities whose credit rating falls below the minimum requirements, will be noticed in the monthly debt and investment reports until the security is sold or meets the minimum credit rating requirements.

Diversification and Maturity Restrictions

Diversification and maturity restrictions ensure the portfolio is not unduly concentrated in the securities of one type, industry, entity, or specific maturity thereby assuring adequate portfolio liquidity should one sector or company experience difficulties.

Outside portfolio managers must review the portfolios they manage to ensure compliance with OCTA's diversification guidelines on an ongoing basis.

AUTHORIZED INVESTMENTS, ISSUER CONCENTRATION & MATURITY RESTRICTIONS

Proposed Authorized Investments, Issuer Concentration and Maturity Restrictions					
Type of Investment	CA Code Maximum Maturity	CA Code Maximum % of Portfolio	CA Code Minimum Quality Requirements	OCTA Maximum % of Portfolio*	OCTA Code Minimum Quality Requirements
OCTA Notes and Bonds	5 Years	100%	None	25%	Same as CA Code
U.S. Treasury Obligations	5 Years	100%	None	Same as CA Code	Same as CA Code
Federal Agency's or U.S. Government Sponsored Enterprises	5 Years	100%	None	Same as CA Code	Same as CA Code
Municipal Debt	5 Years	100%	None	30% total, no more than 5% by any one issuer	"A" rating category or "A-1" rated, or its equivalent or higher, by an NRSRO
Bankers Acceptances	180 Days	40%, 30% of a single issuer	None	30%, no more than 5% any single issuer	"A-1" rated, or its equivalent or higher, by 2 NRSROs
Commercial Paper	270 Days	<u>40% of the agency's money 25%, 10% in a single issuer</u>	"A-1" rated, or its equivalent or higher by an NRSRO	<u>40%, no more than 10% by any one single issuer</u> <u>Same as CA Code</u>	"A-1" rated, or its equivalent or higher, by 2 NRSROs
Negotiable Certificates of Deposit	5 Years	30%	None	30%, no more than 5% in any single issuer	"A" rating category or "A-1" rated, or its equivalent or higher, by 2 NRSROs
Repurchase Agreements	1 Year	100%	None	25%	"A" rating category or "A-1" rated, or its equivalent or higher, by 2 NRSROs
Medium Term Maturity Notes	5 Years	30%	"A" rating category, or its	30% total, no more	Same as CA Code

			equivalent or higher, by an NRSRO	than 5% in any one issuer	
Money Market/Mutual Funds	N/A	20%, 10% of any one mutual fund	"AAA" rated, or its equivalent, by 2 NRSROs	20%, 10% of fund's assets, 10% of any one mutual fund	Same as CA Code
Mortgage Pass-Through and Asset-backed Securities	5 Years	20%	"AA" rating category, or its equivalent or higher, by an NRSRO	Same as CA Code 20%, no more than 10% in Asset-backed Securities, no more than 5% in any single issuer	Same as CA Code
Supranationals	5 Years	30%	"AA" rating category, or its equivalent or higher, by an NRSRO	20%, no more than 10% in any single issuer	Same as CA Code
Local Agency Investment Fund (LAIF)**	N/A	\$75 million per account	None	\$75 million per account	Same as CA Code
Orange County Investment Pool (OCIP)	N/A	100%	None	10%	Same as CA Code
Joint Powers Authority (JPA) Investment Pools	N/A	100%	None	10%	Same as CA Code

*Additional portfolio restrictions include bank deposits (5%) and variable and floating rate securities (30%)

**Current deposit limits for LAIF regular account are set by the State Treasurer

Issuer/Counter-Party Diversification Guidelines for All Securities Except U.S. Treasuries and U.S. Government Agency Securities

Unless otherwise specified in this policy, any one corporation, bank, local agency, special purpose vehicle or other corporate issuer name for one or more series of securities shall not exceed 5% of the portfolio.

Issuer/Counter-Party Diversification Guidelines for OCTA's Debt

The Authority can purchase all or a portion of the Orange County Transportation Authority's debt, including notes and bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by OCTA or by a department, board, agency or authority of OCTA which may bear interest at a fixed or floating rate, providing the purchase does not exceed 25% of the Maximum Portfolio.

12. PROHIBITED INVESTMENT VEHICLES AND PRACTICES

- State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.
- In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
- Investment in any security that could result in a zero-interest accrual if held to maturity is prohibited. Except securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted, under a provision sunseting on January 1, 2026.
- Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
- Purchasing or selling securities on margin is prohibited.
- The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
- The purchase of foreign currency denominated securities is prohibited.
- Agencies that are not Qualified Institutional Buyers (QIB) as defined by the Securities and Exchange Commission are prohibited from purchasing Private Placement Securities. The SEC defines a QIB as having at least \$100,000,000 in securities owned and invested.

132. SECURITIES SAFE KEEPING

All deliverable security transactions, including collateral for repurchase agreements, entered into by OCTA shall be conducted on a delivery-versus-payment basis. Deliverable securities shall be held by a third-party custodian designated by the Treasurer, evidenced by safe keeping receipts and in compliance with Code Section 53608.

143. BROKER DEALERS

The Treasurer, and investment professionals authorized by the Treasurer, may buy securities from a list of broker dealers and financial institutions that will be periodically reviewed.

Outside portfolio managers must certify that they will purchase securities from broker/dealers (other than themselves) or financial institutions in compliance with this Investment Policy.

154. INVESTMENT POLICY REVIEW

This Investment Policy shall be reviewed annually by the Finance and Administration Committee of the OCTA Board of Directors to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield and diversification and its relevance to current law and economic trends.

165. DEFINITION OF TERMS

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

AGENCY SECURITIES: (See U.S. Government Agency Securities)

ASK PRICE: (Offer Price) The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): Securities collateralized or backed by receivables such as automobile loans and credit card receivables. The assets are transferred or sold by the company to a Special Purpose Vehicle and held in trust. The SPV or trust will issue debt collateralized by the receivables.

BANKERS ACCEPTANCES (BAs): Time drafts which a bank "accepts" as its financial responsibility as part of a trade finance process. These short-term notes are sold at a discount and are obligations of the drawer (the bank's trade finance client) as well as the bank. Once accepted, the bank is irrevocably obligated to pay the BA upon maturity if the drawer does not.

BASIS POINT: When a yield is expressed as X.YZ%, the YZ digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

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

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains an electronic record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). These securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment.

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

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a security.

CERTIFICATES OF DEPOSIT (NEGOTIABLE CDs): A negotiable (marketable or transferable) receipt for a time deposit at a bank or other financial institution for a fixed time and interest rate.

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits in an Investment Agreement.

COMMERCIAL PAPER (CP): Unsecured promissory notes issued by companies and government entities usually at a discount. Commercial paper is negotiable, although it is typically held to maturity.

COUPON: The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as "interest rate."

CURRENT YIELD: The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

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

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE SECURITY: Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers' acceptances, are known as discount securities. They sell at a discount from par and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION: An investment principal designed to spread the risk in a portfolio by dividing investments by sector, maturity and quality rating.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by the size or book-value of that investment.

DURATION: A measure of the timing of cash flows, such as the interest payments and principal repayment, to be received from a given fixed-income security.

FEDERAL FUNDS RATE: Interest rate at which banks lend federal funds to each other.

FEDERAL OPEN MARKET COMMITTEE (FOMC): A committee within the Federal Reserve System that makes short-term monetary policy for the Fed. The committee decides either to sell securities to reduce the money supply, or to buy government securities to increase the money supply. Decisions made at FOMC meetings will cause interest rates to either rise or fall.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system which has supervisory powers over the 12 Federal Reserve banks and about 3,000-member banks.

FITCH Ratings referred to as Fitch: (See Nationally Recognized Statistical Rating Organizations)

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

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

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

MARK-TO-MARKET: The process by which the value of a security is adjusted to reflect current market conditions.

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

MARKET VALUE: The current market price of a security.

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

MEDIUM TERM MATURITY CORPORATE SECURITIES: Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

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

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invests in a variety of short-term money market instruments.

MOODY'S INVESTORS SERVICE, INC. referred to as Moody's: (See Nationally Recognized Statistical Rating Organizations)

MORTGAGE-BACKED SECURITY: A debt instrument with a pool of real estate loans as the underlying collateral. The mortgage payments of the individual real estate assets are used to pay interest and principal on the bonds.

MUNICIPAL DEBT: Issued by public entities to meet capital needs.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS (NRSRO's): Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.) The primary rating agencies include Standard & Poor's Global Ratings; Moody's Investor Services, Inc., Fitch Ratings and Kroll Bond Rating Agency, Inc.

NEGOTIABLE CD: (See Certificates of Deposit)

NET ASSET VALUE (NAV): The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling the fund's assets which includes securities, cash and accrued earnings, then subtracting this from the fund's liabilities and dividing by the total number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.

NON-CALLABLE: Bond that is exempt from any kind of redemption for a stated time period.

OCTA BONDS: Bonds, notes, warrants, or other evidences of indebtedness.

OFFER PRICE: An indicated price at which market participants are willing to sell a security.

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

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PORTFOLIO: A group of securities held by an investor.

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

PRIME RATE: A preferred interest rate charged by commercial banks to their most creditworthy customers.

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

PURCHASE DATE: See (Trade Date)

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

REPURCHASE AGREEMENTS (REPOS): A purchase of securities under a simultaneous agreement to sell these securities back at a fixed price on some future date. This is in essence a collateralized investment, with the difference between the purchase price and sales price determining the earnings.

SAFEKEEPING: Holding of assets (e.g. securities) by a financial institution.

SECURITIES & EXCHANGE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SETTLEMENT DATE: The date on which the purchase or sale of securities is executed. For example, in a purchase transaction, the day securities are physically delivered or wired to the buyer in exchange for cash is the settlement date.

SPECIAL PURPOSE VEHICLE (SPV): A trust or similar structure created specifically to purchase securities and reprofile cash flows and/or credit risk. Mortgage or Asset-backed securities may be issued out of the SPV and secured by the collateral transferred from the corporation.

STANDARD & POOR'S GLOBAL RATINGS referred to as Standard and Poor's or S & P: (See Nationally Recognized Statistical Rating Organizations)

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

THIRD-PARTY CUSTODIAL AGREEMENT: (See Custodian)

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio.

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

U.S. GOVERNMENT AGENCY SECURITIES or FEDERAL AGENCIES: U.S. Government related organizations, the largest of which are government financial intermediaries assisting specific credit markets (housing, agriculture).

U.S. TREASURY OBLIGATIONS: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. The Treasury issues both discounted securities and fixed coupon notes and bonds.

Treasury bills: non-interest-bearing discount securities of the U.S. Treasury with maturities under one year.

Treasury notes: interest-bearing obligations of the U.S. Treasury with maturities ranging from two to ten years from the date of issue.

Treasury bond: interest-bearing obligations issued by the U.S. Treasury with maturities ranging from ten to thirty years from the date of issue.

Treasury STRIPS: U.S. Treasury securities that have been separated into their component parts of principal and interest payments and recorded as such in the Federal Reserve book entry record-keeping system.

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

VARIABLE AND FLOATING RATE SECURITIES: Variable and floating rate securities are appropriate investments when used to enhance yield and reduce risk. They should have the same stability, liquidity and quality as traditional money market securities.

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

YIELD: The current rate of return on an investment security generally expressed as a percentage of the securities current price.

ZERO COUPON SECURITIES: Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.