

# Orange County Treasurer



## 2021 Investment Policy Statement

(Approved By B.O.S. 11/17/2020)

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# **ORANGE COUNTY TREASURER INVESTMENT POLICY STATEMENT**

## **PURPOSE**

This policy is intended to provide the structure for the prudent investment of the cash balances entrusted to the Orange County Treasurer (the “Treasurer”) and outline the policies to assist in maximizing the efficiency of the Treasurer’s cash management system while meeting the daily cash flow demands of the County, the School Districts, Community Colleges, voluntary participants and other County-related agency funds. The Treasurer’s Investment Policy Statement is approved annually by the County Board of Supervisors as required by California Government Code Section 53646 (a) (1) and reviewed annually by the Treasury Oversight Committee, pursuant to the requirements of California Government Code Section 27133. (All references are to the California Government Code unless otherwise stated.)

## **I. POLICY STATEMENT**

The investment practices and policies of the Treasurer are based on compliance with State law and prudent money management. The primary goal is to invest public funds in a manner that will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to pool participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

The Orange County Investment Fund (the “OCIF”), which includes all cash balances entrusted to the Treasurer as noted above, is designed to meet both the investment and cash requirements of our participants. If separate funds are established, the Treasurer shall determine on a cash flow basis what percent of available cash will be invested in each fund.

## **II. SCOPE**

The scope of this Investment Policy Statement applies to all financial assets as indicated in II.1 below.

### **1. FUNDS**

The Treasurer is responsible for investing the unexpended cash of the OCIF, defined as all monies under the investment authority of the Treasurer, including funds, and subsets of funds for the Orange County Department of Education; and excluding the County employee’s pension and medical trust funds which are invested separately by Orange County Employees Retirement System (OCERS), and those funds that are invested separately by the County Treasurer under bond indenture agreements. The County Funds are accounted for in the County’s CAFR and include:

- Governmental Funds, including the General Fund
- Enterprise Funds
- Fiduciary Funds
- Any other funds or new funds created by the County, unless specifically exempted

**a) Pooled Funds:**

It is the Treasurer's policy to pool certain funds for investment purposes to provide efficiencies and economies of scale. Investing through pooled funds will provide for greater use of funds by allowing for more efficient cash flows, a reduction in transaction costs, and improved access to the market. In addition to allowing for one pool for all participants, OCIF may also be split into different pools to meet the specific needs of participants such as short-term pools and longer-term pools. Each pool established will be reviewed separately for purposes of determining compliance with the Investment Policy Statement. These pools are based on the investment requirements detailed in Government Code Sections 53600 et seq. and 53630 et seq.

- i. If a longer-term pool such as an extended fund is established by the Treasurer, it will be utilized for investment requirements generally longer than one year. It will be invested primarily in high grade securities.
- ii. If a short-term pool is established, it can be established as a single pool or as separate pools depending on the needs of the pool participants. These pools will be utilized for shorter-term investment requirements and providing liquidity for immediate cash needs. They will be invested primarily in cash-equivalent securities to fulfill the primary goals of safety and liquidity.

**b) Specific Investment Accounts:**

From time to time, the Treasurer may be asked by the County or a participant's governing board to invest other specific investments or to manage bond proceeds issued by the County, a local school district, voluntary participant, or other local agency. This may include deposits that are set aside for future needs of a long-term nature and may be appropriately invested in longer-term securities, either in a pool or in specific investments as allowed by Government Code. The County or the participating agencies will be required to sign a written agreement acknowledging that there may be risk to principal should they desire to redeem funds early, thereby forcing an early sale of securities rather than holding investments to maturity.

In addition, no investment will be made in any security that at the time of the investment has a term remaining to maturity in excess of five years, unless the appropriate legislative body has granted express authority to make that investment either specifically or as part of an investment program approved by that legislative body no less than three months prior to the investment. Strategies for such deposits may include matching maturities with long-term liabilities.

### **III. PRUDENCE**

Government Code Sections 27000.3 and Section 53600.3 provide that the "prudent investor" standard is to be used by the Treasurer as a fiduciary of public funds. This standard provides that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the County and other depositors 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 County and

the other depositors. Within the limitation of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.

The Treasurer and those delegated staff shall act in accordance with written procedures and the Investment Policy Statement, exercise due diligence, report in a timely fashion and implement appropriate controls to mitigate adverse developments.

#### **IV. DELEGATION OF AUTHORITY**

Annually, the County Board of Supervisors delegates to the Treasurer the authority to invest and reinvest the funds of the County and other depositors as specified in Government Code Sections 27000.1, 53607 and 53608. Such delegation is conditioned upon the Treasurer submitting any and all investment policies and amendments thereto to the Board for review and approval. The Treasurer may further delegate investment authority to such persons within the Treasurer's Department as deemed appropriate.

#### **V. OBJECTIVES**

Criteria for selecting investments and the absolute order of priority are:

##### **1. SAFETY**

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

The Treasurer shall seek to preserve principal and minimize capital losses by mitigating credit risk and market risk as follows:

- a) **Credit Risk:** Defined as an issuer's ability and willingness to repay interest and principal. Credit risk shall be mitigated by diversifying the fund among issues and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants.
- b) **Market Risk:** Defined as the risk of market value fluctuations due to changes in the general level of interest rates. Because longer-term securities generally have greater market risk than shorter-term securities, market risk will be mitigated by establishing a maximum weighted average maturity or duration for the portfolio. Occasional market losses on individual securities are inevitable with active portfolio management and must be considered within the context of the overall investment return.

##### **2. LIQUIDITY**

Liquidity refers to the recurring maturity of a portion of the investment portfolio, as well as the ability to sell an investment at any given moment with a minimal chance of principal loss. A portion of OCIF, which may be in a separate pool, will maintain liquidity for the purpose of meeting all operating requirements and reasonably anticipated cash flow needs.

##### **3. YIELD**

Yield refers to the objective of attaining a market rate of return commensurate with the risk profile and cash flow characteristics of the portfolio throughout budgetary and economic

cycles. Under Government Code Section 53601.6, securities issued by, or backed by, the United States government can result in zero- or negative- interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. Although the Treasurer may employ certain indices to gauge the funds' rate of return, such indices shall be used solely for comparative purposes and do not constitute a warranty or guarantee of actual fund performance.

#### **4. MARK-TO-MARKET**

Investment pools, as described in Section II, 1 (a) of this Investment Policy Statement, are marked to market. To the extent reasonably possible and consistent with the Treasurer's trust and fiduciary duty, any funds in a short-term pool will attempt to stabilize at a \$1.00 net asset value (NAV). If the ratio of the market value of the short-term pool divided by the book value of the short-term pool is less than \$.9975, holdings may be sold as necessary to maintain the NAV above \$.9975.

The Treasurer will also act on a "best efforts" basis to keep any short-term pools above \$.9975 and will provide the NAV of all pools in the monthly report. However, the \$1.00 NAV is not guaranteed or insured by the Treasurer for any pool, including any longer-term pool, nor are the pools registered with the Securities Exchange Commission (SEC).

### **VI. AUTHORIZED INVESTMENTS**

The County is authorized by Government Code Section 53600 et seq. to invest in specific types of securities. Investments not specifically listed below are prohibited. Consistent with the requirements of law and this Investment Policy Statement, the Treasurer may place orders for the execution of transactions with or through such broker/dealers, banks or counterparties as may be selected from time to time at his/her discretion. All securities must be U.S. dollar denominated. To the extent consistent with the objectives stated above, the investment restrictions outlined below, and the investment limitations specified in Sections VII and VIII, the pools may invest in the following areas.

#### **1. U. S. TREASURY SECURITIES**

United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest. There is no limit on the percentage of any individual pool's total assets that can be invested in this category.

#### **2. U. S. GOVERNMENT AGENCY SECURITIES**

Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise (GSE). There is no limit on the percentage of any individual pool's total assets that can be invested in this category including no issuer limit.

#### **3. COMMERCIAL PAPER**

Eligible commercial paper shall not exceed 270 days maturity, and shall not exceed 40% of any individual pool's total assets. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

- a)** Has total assets in excess of five hundred million dollars (\$500,000,000), is organized and operating within the United States as a general corporation and has debt other than

commercial paper, if any, that is rated “A” or higher by a NRSRO.

- b) Is organized in the United States as a special purpose corporation, trust, or limited liability company, has program-wide credit enhancements including, but not limited to overcollateralization, letters of credit or a surety bond.

No more than 5% of any individual pool’s total assets may be invested in any one issuer’s commercial paper.

#### **4. NEGOTIABLE CERTIFICATES OF DEPOSIT**

Negotiable certificates of deposit issued by a nationally or state-chartered bank, savings association, or a federal association (as defined by Section 5102 of the California Financial Code), or by a federally licensed or state-licensed branch of a foreign bank. No more than 20% of any individual pool’s total assets may be invested in negotiable certificates of deposit and maximum remaining maturity cannot exceed eighteen months.

#### **5. REPURCHASE AGREEMENTS**

Investments in repurchase agreements for the purpose of this Investment Policy Statement means a purchase of securities by the Treasurer pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Treasurer by book entry, physical delivery, or by third party custodial agreement. The term of a repurchase agreement shall not exceed one year and have capital of not less than \$500 million.. The term "securities," for the purpose of repurchase agreements, means securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a master repurchase agreement must be completed and signed by all parties involved. The Treasurer will maintain a signed copy of the agreement. Repurchase agreements are required to be collateralized by securities or cash.

##### **a) Collateralization:**

In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

Collateral will be limited to cash, and U.S. Treasury and U.S. Government Agency securities. For compliance purposes, U.S. Treasury and/or U.S. Government Agency collateral are exempt from the issuer limits as stated in Section VIII.2. Collateral will be held by an independent third party with whom the Treasurer has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to the Treasurer and retained. No collateral substitutions may be made without prior approval of the Treasurer.

Investments in repurchase agreements are limited to no more than 20% of any individual pool's total assets. Agreements are subject to Government Code Section 53601 and must comply with the delivery requirements and the maturity provision from Section 53601.

#### **6. BANKERS' ACCEPTANCES**

Bankers' acceptances, also known as time drafts or bills of exchange, that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity. Bankers' acceptances are limited to no more than 40% of any individual pool's total assets.

#### **7. MONEY MARKET MUTUAL FUNDS**

Shares of beneficial interest issued by diversified management companies that are money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.), which only invest in direct obligations in U.S. Treasury bills, notes, and bonds, U.S. Government Agencies, Municipal Debt, and repurchase agreements with a weighted average maturity of 60 days or less. Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV) are prohibited. Money market mutual funds are not required to conform to the restrictions detailed in this Investment Policy Statement, but are limited to no more than 20% of any individual pool's total assets. The Treasurer shall be required to investigate money market mutual funds prior to investing and perform a periodic review, but at least annually thereafter while the funds are invested in the money market mutual fund. At a minimum, approved money market mutual funds shall have met either of the following criteria:

- a) Attained the highest ranking or the highest letter and numerical rating provided by no less than two NRSROs.
- b) Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of \$500,000,000.

#### **8. STATE POOL – LOCAL AGENCY INVESTMENT FUND**

The Treasurer may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer under Government Code Section 16429.1. LAIF has no final stated maturity and will be reported as a one-day maturity. Investments in LAIF shall not exceed the current State limit (\$75 million per pool as of 1/1/2020).

#### **9. MUNICIPAL DEBT**

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

- a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.
- b) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of a state.



- c) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

#### **10. MEDIUM-TERM NOTES**

Medium-term notes are defined as all corporate and depository institution debt securities with a maximum remaining maturity of not more than 397 days for any short-term pools and two years for any other pools such as a longer-term pool. Medium-term notes must be 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. Investments in medium-term notes are limited to no more than 20% of any individual pool's total assets.

#### **11. 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 53601 (a) to (o), inclusive, and that comply with the investment restrictions of Government Code Sections 53600 through 53610 and Section 53630. The Treasurer shall be required to investigate all local government investment pools prior to investing and perform a quarterly review thereafter while the funds are invested in the pool. The analysis shall include, but is not limited to, the following characteristics of a pool/fund as part of its investigation and quarterly review:

- Eligible securities
- Maximum maturity
- REPO collateral/counter-party
- Size of the pool/fund
- Limits on withdrawal/deposit
- Expense ratio

Investments in this investment type are limited to no more than 20% of any individual pool's total assets. No more than 10% of any individual pool's total assets shall be invested in a single investment pool.

#### **12. SUPRANATIONAL SECURITIES**

Supranational securities are defined as United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity five years or less, and eligible for purchase and sale within the United States. Investments in supranationals shall not exceed 30 percent of any individual pool's total assets.

### **VII. INVESTMENT CREDIT RATING RESTRICTIONS**

Credit ratings will be applied at the time of purchase of a security and monitored for changes while owned. A downgrade subsequent to purchase in a security's credit rating will not constitute a violation of the Investment Policy Statement. Securities that are downgraded below the minimum acceptable rating levels must be reviewed for possible sale by the

Treasurer within a reasonable amount of time. The credit ratings referred to in this policy must be assigned by one of the following Nationally Recognized Statistical Rating Organizations (NRSRO): Standard & Poor's Corporation (S&P), Moody's Investors Service, Inc. (Moody's) and Fitch Ratings (Fitch).

All short-term and long-term investments, except those noted below, 1) must have the minimum ratings required below by at least two NRSROs, and 2) the lowest rating of any NRSRO must meet or exceed the minimum rating required below:

|         |                         |
|---------|-------------------------|
| S&P     | A-1, "AA"               |
| Moody's | P-1, MIG 1/VMIG 1, "Aa" |
| Fitch   | F-1, "AA"               |

If an issuer of Long-term debt has a Short-term debt rating, then it may not be less than the minimum required Short-term debt ratings above.

- a) Municipal debt issued by the County of Orange, California (as defined in Section VI 9), U.S. Government obligations (as defined in Section VI 1 and VI 2) and State Pool (as defined in Section VI 8), are exempt from the credit rating requirements listed above.
- b) Money Market Mutual funds (as defined in Section VI 7) and Investment Pools (as defined in Section VI 11) require the highest ranking or the highest letter and numerical rating provided by at least one NRSRO.

Any issuer, and all related entities, that have been placed on "Credit Watch-Negative" by a NRSRO will be placed on hold and current holdings reviewed for possible sale within a reasonable period of time unless the following criteria are met and are also approved in writing by the Treasurer prior to purchase:

The issuer has:

- (a) an A-1+ or F1+ short-term rating; and
- (b) at least an AA or Aa2 or higher long-term rating from each of the NRSROs that rate the issuer.

## **VIII. DIVERSIFICATION AND MATURITY RESTRICTIONS**

It is the policy of the Treasurer to diversify the pooled funds. Investments are diversified to minimize the risk of loss resulting in overconcentration of assets in a specific maturity, specific issuer, or a specific class of securities. Diversification strategies shall be established by the Treasurer and periodically reviewed.

### **1. AUTHORIZED INVESTMENTS AND ISSUER CONCENTRATION**

Only debt issued by firms listed on the Office of the Treasurer's Approved Issuer List may be purchased. The following diversification limits will also be applied at the time of purchase of a security.

| Type of Investment                               | Cal Gov Code % of Funds Permitted | Orange County IPS   | Cal Gov Code Maximum Final Maturity | Orange County IPS Maximum Final Maturity (All Pooled Funds Except Short-Term Funds) | Orange County IPS Maximum Final Maturity (Short-Term Fund) |
|--|-----------------------------------|---|-------------------------------------|---|--|
| U.S. Treasury Securities                         | 100%                              | 100%  | 5 Years                             | 5 Years   | 397 Days   |
| U.S. Government Agency Securities (GSEs)         | 100%                              | 100%  | 5 Years                             | 5 Years   | 397 Days   |
| Municipal Debt                                   | 100%                              | 20% Total, no more than 5% in one issuer except 10%- County of Orange | 5 Years                             | 3 Years   | 397 Days   |
| Medium-Term Notes                                | 30%                               | 20% Total, no more than 5% in one issuer                              | 5 Years                             | 2 Years   | 397 Days   |
| Bankers Acceptances                              | 40%, 30% of a single issuer       | 40% Total, no more than 5% in one issuer                              | 180 Days                            | 180 Days  | 180 Days   |
| Commercial Paper                                 | 40%, 10% of a single issuer       | 40% Total, no more than 5% in one issuer                              | 270 Days                            | 270 Days  | 270 Days   |
| Negotiable Certificates of Deposits              | 30%                               | 20% Total, no more than 5% in one issuer                              | 5 Years                             | 18 months   | 397 Days   |
| State of California Local Agency Investment Fund | \$75 million per account          | State limit (\$75 million per pool as of 1/1/2020)                    | N/A                                 | N/A   | N/A  |
| Repurchase Agreements                            | 100%                              | 20% Total, no more than 10% in one issuer                             | 1 Year                              | 180 Days  | 1 Year   |
| Money Market Mutual Funds (MMMF)                 | 20%                               | 20% Total, no more than 10% in one MMMF account                       | N/A                                 | N/A   | N/A  |
| JPA Investment Pools (JPA)                       | 100%                              | 20% Total, no more than 10% in one JPA Pool                           | N/A                                 | N/A   | N/A  |
| Supranationals                                   | 30%                               | 30% Total, no more than 5% in one issuer                              | 5 Years                             | 5 Years   | 397 Days   |

## 2. MATURITY

- a) The weighted average maturity (WAM) of any short-term pool, on a dollar-weighted basis, shall not exceed 60 days.
- b) The maximum maturity of any investment purchased will be five years with the exception of investments and investment pools authorized by the Board of Supervisors or the appropriate legislative body to be invested in longer than five year maturities.

The following restrictions will apply:

|            |                      |
|------------|----------------------|
| Short-term | 13 months (397 days) |
| Long-term  | 5 years              |

- c) For purposes of calculating a final maturity date, the earlier of either the final maturity date, pre-refunded date, or mandatory put to tender option date that will be used.

- d) For purposes of calculating the weighted average maturity of the portfolio, the maturity of a variable-rate security will be considered its next interest rate reset date, if there is a reasonable expectation that the security will maintain an approximate value of par upon each adjustment of the security's interest rate at any time until final maturity.

### **3. DURATION**

- a) All pools, except short-term pools, shall have a maximum duration of 1.50 years.

## **IX. PROHIBITED TRANSACTIONS**

At the time of purchase, all permitted investments shall conform in all respects with this Investment Policy Statement and with applicable provisions of the Government Code, as may be amended from time to time. No investment prohibited by Government Code shall be permitted herein.

Any investment transactions, credit risk criterion, percentage limitations, or market valuations that are not in compliance with this Investment Policy Statement and cannot be corrected without penalty **at time of purchase** must be documented and approved by the Treasurer in writing as soon as possible. Thereafter, action shall be taken by the Treasurer to correct such matter as soon as practical. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction.

### **1. The following transactions are prohibited:**

- a) Borrowing for investment purposes ("Leverage").
- b) Reverse Repurchase Agreements, as defined by Government Code Section 53601(j) (3) and (j) (4) or otherwise.
- c) Structured Notes (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities, event-linked securities). This includes all floating-rate, adjustable-rate or variable-rate securities in which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.

Simple "floating rate notes," whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate, SOFR or LIBOR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are exempt from this definition. Additionally, U.S. Treasury and Agency zero coupon bonds or callable securities which otherwise meet the quality, maturity, and percent limitations assigned to their respective security category, are exempt from this section.

- d) Structured Investment Vehicles (SIV).
- e) Derivatives (e.g., options, futures, swaps, swap options, spreads, straddles, caps, floors, collars).
- f) Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV).

## **X. ETHICS AND CONFLICT OF INTEREST**

The Treasurer and all persons involved in the investment process shall refrain from personal business activity, which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The Treasurer and all treasury and investment personnel shall disclose to the Treasury Oversight Committee any material financial interests in financial institutions, broker dealers, and vendors (“outside entities”) that conduct business with the County of Orange and shall disclose any material financial investment positions in such outside entities.

### **1. STATEMENT OF ECONOMIC INTEREST FORM 700**

The Treasurer, Auditor-Controller, members of the Treasury Oversight Committee, and all designated employees must annually file a Form 700 (Statement of Economic Interests) in accordance with the County’s Conflict-of-Interest Code.

### **2. COUNTY’S GIFT BAN ORDINANCE – SEC. 1-3-22 THE CODIFIED ORDINANCES, ORANGE COUNTY, CALIF.**

The County’s Gift Ban Ordinance prohibits the receipt of specified gifts to the Treasurer, Auditor-Controller, and “designated employees” from business entities and individuals that “do business with the County” as that termed in defined in the Ordinance. Under the Ordinance, the term “designated employee” includes every employee of the County who is designated in the County’s Conflict-of-Interest Code to file a Form 700 and every member of a board or commission under the jurisdiction of the Board of Supervisors required to file such a form. For purposes of the Treasurer’s Office, “designated employees” include: the Chief Assistant Treasurer-Tax Collector, the Assistant Treasurer-Tax Collectors, all investment staff, all financial/credit analysts, all cash managers, and all accounting and compliance staff. The Treasurer will review this list of “designated employees” periodically and submit any proposed changes to the Board of Supervisors for approval.

## **XI. AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS**

The Treasurer will maintain a list of broker/dealers and financial institutions authorized to provide investment and/or depository services and products. Any permitted investment, not purchased directly from an approved issuer, shall be purchased either from a “primary” or regional securities broker/dealer qualifying under SEC Rule 15c3-1(uniform net capital rule) and licensed by the state as a broker/dealer as defined in Section 25004 of the Corporations Code or a “well capitalized” national bank or Federal savings association as defined in Title 12 of the Code of Federal Regulations (CFR) Part 6.4 or a savings association or Federal association as defined by Section 5102 of the California Financial Code. To be eligible to receive local agency money, a bank, savings association, federal association or federally insured industrial loan company shall have received an overall rating of not less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California’s communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code. Sections 53601.5 and 53601.6 shall apply to all investments that are acquired pursuant to this section. Broker/dealers must comply with the political contribution limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board. Section

27133(c) of the Government Code prohibits the selection of any broker, brokerage, dealer, or securities firm that has made a contribution to the Treasurer, any member of the Board of Supervisors, or any candidate for those offices, within any consecutive 48 month period.

The Treasurer shall conduct an annual review of each broker/dealer and financial institution's financial condition and registrations to determine whether it should remain on the approved broker/dealer list for investment and/or depository services and require annual audited financial statements to be on file for each firm. The Treasurer shall strive to open an application period every two years for all new and existing broker/dealers and financial institutions submitting a questionnaire to determine if they should be added to the approved broker/dealer list. This detailed questionnaire is required to be completed by broker/dealers and financial institutions seeking to provide investment services. The Treasurer shall annually send a copy of the current Investment Policy Statement to all broker/dealers and financial institutions approved to provide investment services to the County, and they shall notify the Treasurer in writing of receipt and that they have read it.

## **XII. PERFORMANCE EVALUATION**

The Treasurer shall submit monthly, quarterly, and annual reports (in compliance with Government Code Sections 53607, 53646, and 27134) to the Treasury Oversight Committee, the pool participants, the County Executive Officer, the Director of Auditor-Controller Internal Audit, the Auditor-Controller, and the Board of Supervisors. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code. In accordance with GASB Statements 31, 40, 72 and 84, the Treasurer shall provide financial information on investments for the County's Comprehensive Annual Financial Report.

## **XIII. SAFEKEEPING**

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a delivery-versus-payment (DVP) basis. All investments shall have the County of Orange and either the OCIF or the specific pool name as its registered owner except for municipal debt issued by the County of Orange and privately placed with the County Treasurer in which case the investments shall have the Orange County Treasurer on behalf of the OCIF as its registered owner.

All securities shall be held by a third party custodian designated by the Treasurer (this does not apply to money market funds or investment pools). The third party custodian shall be required to issue a safekeeping statement to the Treasurer listing the specific instrument, rate, maturity, and other pertinent information.

## **XIV. MAINTAINING THE PUBLIC TRUST**

All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

## **XV. INTERNAL CONTROLS**

The Treasurer shall establish a system of written internal controls, which will be reviewed annually with the County's independent (external) auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the Treasurer's Office. The Treasurer shall evaluate audit reports in a timely manner with the Treasury Oversight Committee. The quarterly audit reports of the Treasury shall be provided as required by Government Code Sections 26920 through 26922. Daily compliance of the investment portfolio shall be performed by the Department's Accounting and Compliance Units. Compliance will be determined on a fair market value basis. All agreements, statements, and trade packets will be subject to review annually by auditors in conjunction with their audit.

## **1. INVESTMENT PROCEDURES**

The Treasurer shall develop and maintain written administrative procedures for the operation of the investment program that are consistent with this investment policy. Procedures will include reference to safekeeping, Master Repurchase Agreements, wire transfer agreements, collateral and depository agreements, banking service contracts, and other investment and banking related activities. Such procedures shall include explicit delegation of authority to personnel responsible for investment transactions.

No investment personnel may engage in an investment transaction except as provided under terms of this policy and the procedures established by the County Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of all Treasury and Investment personnel.

## **XVI. EARNINGS AND COSTS APPORTIONMENT**

The Treasurer determines the interest earnings for the respective pools on an accrual basis. Accrual basis interest earnings and Treasury administrative fees (see below) are allocated to each individual pool participant based upon their average daily balance on deposit with the Treasurer. The actual cash distribution is generally paid in the months following.

As authorized by Government Code Section 27013, the Treasurer who invests, deposits or otherwise handles funds for public agencies for the purpose of earning interest or other income on such funds as permitted by law, may deduct from such interest or income, before distribution thereof, the actual administrative cost of such investing, depositing or handling of funds and of distribution of such interest or income. Such cost reimbursement shall be paid into the county general fund. In addition, the costs of compliance with the Treasury Oversight provisions of Government Code Sections 27130 through 27137 shall be included as an eligible administrative cost. These investment administrative costs will be deducted from any interest or income, prior to distribution to the pool participant. The Treasurer shall annually prepare a proposed budget revenue estimate, providing a detailed itemization of all estimated costs which comprise this investment administrative fee charged in accordance with Government Code Section 27013. The Treasurer will be required to annually reconcile the estimated charges and actual costs incurred and adjust participant accounts accordingly.

Investment earnings and the above estimated fee charge will be allocated to the pool participants on at least a quarterly basis. As of the first working day of the following period,

the pool participants' account will reflect the gross investment earnings and the estimated monthly administrative and overhead costs. The Treasurer's monthly report will state the current estimated fees charged to participants.

## **XVII. VOLUNTARY PARTICIPANTS**

Should a local agency within Orange County, or a Joint Powers Agency (JPA) consisting of at least one public agency from within Orange County, not required by California law to deposit monies with the Treasurer desire entry into the Treasurer's Investment Pool, the agency shall comply with the requirements of Government Code Section 53684 and provide to the Treasurer a resolution adopted by its governing board stating that excess funds are available for the purpose of investment. The resolution shall specify that the local agency authorizes the investment of excess funds pursuant to Section 53684, those persons authorized at the agency to coordinate the transactions, the agency's willingness to be bound by the withdrawal provisions of Government Code Section 27136, and the agency's understanding that investment administrative charges will be deducted by the Treasurer as permitted by Sections 53684(b) and 27013. The Treasurer shall approve or disapprove such agency's request in writing. Upon the Treasurer's approval of voluntary participants to join the pool, the Treasurer will notify the Board of Supervisors within 5 days.

Monies deposited by local agencies approved for entry into the Treasurer's Investment Pool will be invested in the OCIF and shall be invested by the Treasurer in accordance with this Investment Policy Statement, as amended from time to time. The local agency's authorized representative will execute an agreement with the Treasurer. This agreement specifies the contractual terms and conditions by which the Treasurer will manage and invest local agency's excess funds which have been deposited for investment with the Treasurer.

## **XVIII. WITHDRAWAL**

As required by Government Code Sections 27000.3, 27133(h), 27136 and 53684(c), withdrawal of participant funds for the purpose of investing or depositing these funds outside the County treasury shall require prior written approval from the Treasurer or designee. The Treasurer shall thereafter review the withdrawal request consistent with his/her trust and fiduciary duties. Prior to approving or disapproving the withdrawal request, the Treasurer or designee shall make a finding of the effect on the stability and predictability of the investments and on the interests of the other depositors in the County treasury.

## **XIX. PERFORMANCE STANDARDS**

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs, but focusing on, in order of importance, preservation of capital, liquidity, and yield.

The Treasurer's investment strategy is to actively manage the portfolios to create less risk than a benchmark comparable index and to use economies of scale to invest and administer the program at a reasonable cost. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the indices most comparable to



the fund, such as money rate data published in Barron's, The Wall Street Journal, Bloomberg, or other bond fund indices. The standards enumerated herein do not constitute a guarantee of the fund's performance.

## **XX. INVESTMENT POLICY STATEMENT REVIEW**

This Investment Policy Statement shall be reviewed on an annual basis by the Treasury Oversight Committee prior to being presented to for review and approval by, the Board of Supervisors in an open session.

## **XXI. FINANCIAL REPORTING**

The monthly Treasurer's Investment Report and all compliance Audit Reports shall be provided to the Orange County Board of Supervisors, the County Executive Officer, the Chief Financial Officer, the Director of Auditor-Controller Internal Audit, the Auditor-Controller, the Treasury Oversight Committee, the presiding judge of the Superior Court, the director or director executive officer and Treasurer or other official responsible for the funds of any Local Agency who has investments in the OCIF as allowed by Government Code Sections 53607, 53646, and 53686.

All reports filed by the Treasurer in accordance with Government Code Section 53646 shall, among other matters, state compliance of the portfolio with the Investment Policy Statement, or the manner in which the portfolio is not in compliance. A statement will also be filed by the Treasurer in accordance with Government Code 53646(b) denoting the ability of each pool to meet its expenditure requirements for the next six months or provide an explanation of why sufficient money may not be available.

## **XXII. LEGISLATIVE CHANGES**

Any State of California law that further restricts allowable maturities, investment type, percentage allocations, or any other provision of this Investment Policy Statement will, upon effectiveness, be incorporated into this Investment Policy Statement and supersede any and all previous applicable language.

## **XXIII. DISASTER RECOVERY PROGRAM**

The Treasurer's Disaster Plan includes critical phone numbers and addresses of key treasury and investment personnel as well as currently approved bankers and broker/dealers. Three copies of the Disaster Plan for home, office, and car have been distributed to key treasury and investment personnel. The plan provides for an offsite location to be communicated at the time of readiness if our offices are uninhabitable.

In the event the Treasurer or authorized staff is unable to invest the portfolio, the Treasurer has an agreement with the custodian for a daily sweep of all uninvested cash with the custody bank into a money market mutual fund. Until normal operations of the Treasurer's office have been restored, the limitations on the size of an individual issuer and the percentage restrictions by investment type would be allowed to exceed those approved in this Investment

Policy Statement and would be required to be reported to the Board of Supervisors and pool participants in a timely manner.

## **INVESTMENT POLICY STATEMENT GLOSSARY**

This Glossary is for general reference purposes only and does not constitute an exhaustive or exclusive list of terms and definitions applicable to this Investment Policy Statement. The definitions included herein do not modify any of the terms of this Investment Policy Statement or applicable law.

**ACCREDITED INVESTOR:** Defined in the Code of Federal Regulations (CFR) 230.501 (a)(9) as any entity, including a government body that owns “investments”, as defined in the CFR 270.2A51-1(b)(7)(i), such as cash and cash equivalents, for investment purposes under the Investment Company Act in excess of \$5 million.

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

**ADJUSTABLE RATE NOTE:** (See Floating Rate Note)

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

**AMORTIZATION:** The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

**AVERAGE LIFE:** The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

**ASKED PRICE:** The price at which securities are offered from a seller.

**ASSET BACKED SECURITIES (ABS):** (See Receivable-Backed Securities)

**BANKERS' ACCEPTANCE (BA):** Negotiable money market instruments issued primarily to finance international trade. These are time drafts in which a bank “accepts” as its financial responsibility to pay the principal at maturity even if the importer does not. In essence, these are bank obligations collateralized by goods being shipped between an exporter and an importer.

**BASIS POINT:** When a yield is expressed as 7.32%, the 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 money market securities are “delivered” to an investor’s custodian bank. The Federal Reserve maintains a computerized 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). The owners of these securities do not receive physical certificates.

**BOOK VALUE:** The original cost of the investment, plus accrued interest and amortization of any premium or discount.

**BROKER:** A broker brings buyers and sellers together and is compensated for his/her service.

**CALLABLE BONDS:** Bonds that may be redeemed by the issuing company prior to the maturity date.

**CALL PRICE:** The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

**CALL RISK:** The risk to a bondholder that a bond may be redeemed prior to maturity.

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

**CERTIFICATE OF DEPOSIT (CD or NCD):** A deposit of funds at a bank for a specified period of time that earns interest at a specified rate. Commonly known as "CDs" or "negotiable CDs."

**COLLATERAL:** Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public moneys.

**COMMERCIAL PAPER (CP):** Short-term unsecured promissory notes issued by corporations for maturities of 270 days or less.

**CONSUMER RECEIVABLE-BACKED BONDS:** (See Receivable-Backed Securities)

**CONVEXITY:** A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

**CREDIT OUTLOOK:** (See Rating Outlook)

**CREDIT QUALITY:** The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized statistical rating organizations.

**CREDIT RISK:** The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

**CREDIT WATCH:** indicates that a company's credit is under review and credit ratings are subject to change.

\*+ (positive)

Credit is under review for possible upgrade.

\*- (negative)

Credit is under review for possible downgrade.

\*

Credit is under review, direction uncertain.

**COUPON:** The rate at which a bond pays interest.

**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 stock certificates and other assets.

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

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

**DERIVATIVE:** A security whose interest rate of principal amount may vary and are determined by a market index or a combination of market indexes.

**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 principle designed to spread the risk in a portfolio by dividing investments among different sectors, industries and companies.

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

**DURATION:** A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

**FEDERAL FUNDS RATE:** Interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. A target rate is set by the FOMC.

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** A U.S. centralized banking system, which has supervisory powers over the 12 Federal Reserve banks and about 6,000 member banks.

**FITCH, INC:** (see Nationally Recognized Statistical Rating Organization)

**FIXED-INCOME SECURITIES:** Securities that return a fixed income over a specified period.

**FLOATING RATE NOTE:** A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g. Treasury bills, London Interbank Offered Rate (LIBOR), Secured Overnight Financing Rate (SOFR) etc.).

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

**INTERNAL CONTORLS:** An internal control structure designed to ensure 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.

**INVESTMENT COMPANY ACT OF 1940:** Federal legislation which 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.

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

**LOCAL AGENCY:** County, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

**MARK-TO-MARKET:** The market valuation for every security in a portfolio used in determining Net Asset Value (NAV).

**MARKET RISK:** The risk that changes in overall market conditions or interest rate may adversely affect current market prices.

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

**MASTER REPURCHASE AGREEMENT:** A written contract between the parties of a repurchase agreement establishing each party's rights in all current and future transactions until termination of the contract by either party.

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

**MEDIUM TERM NOTES (MTN):** Debt securities issued by a corporation or depository institution with a maturity ranging from nine months to five years. The term "medium-term note" refers to the time it takes for an obligation to mature, and includes other corporate debt securities originally issued for maturities longer than five years, but which have now fallen within the five-year maturity range. MTNs issued by banks are also called "bank notes."

**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 invest in a variety of short-term money market instruments.

**MOODY'S INVESTORS SERVICE, INC:** (See Nationally Recognized Rating Services)

**MUNICIPAL DEBT:** Bonds, notes and other securities issued by a state, municipality or county.

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO):** 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 are the following: Standard & Poor's Corporation; Moody's Investor Services, Inc.; and Fitch, Inc.

**NEGOTIABLE CD:** (See Certificates of Deposit)

**NET ASSET VALUE (NAV):** A per-share valuation of a mutual fund based on total assets minus total liabilities.

**NON-CALLABLE:** Bond that cannot be called at the option of the issuer.

**OFFER PRICE:** The price asked by a seller of securities.

**PAR or 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 physical certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

**PORTFOLIO:** A group of securities held by an individual or institutional investor.

**PREMIUM:** The difference between the par value of a bond and the market value of the bond, when the market value is above par.

**PRICE RISK:** The risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

**PRIMARY DEALER:** Banks and securities brokerages authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Federal Open Market Operations.

**PRIME RATE:** The base rate that banks use in pricing commercial loans to their best and most creditworthy customers.

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

**PROSPECTUS:** A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information of the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

**QUALIFIED INSTITUTIONAL BUYER (QIB):** Defined in CFR Section 230.144A as a class of investors that can be conclusively assumed to be sophisticated and in little need of the protection afforded by the Securities Act's registration provisions. They must own and invest on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with the QIB to qualify for qualified institutional buyer status. This includes any institutional investors included in the accredited investor definition, provided they satisfy the \$100 million threshold.

**RATING OUTLOOK:** The potential direction of the credit rating assigned by a NRSRO for a specific company.

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

**RECEIVABLE-BACKED SECURITIES:** Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

**RECEIVABLE PASS-THROUGH CERTIFICATE:** A debt obligation that is backed by a portfolio of receivables, normally issued by a bank or financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivables portfolio.

**REFUNDED BOND:** A bond secured by an escrow fund that is sufficient to pay off the entire issue of bonds at the next call date (pre-funded) or maturity (escrowed to maturity).

**REGISTERED STATE WARRANT:** A short-term obligation of a state governmental body issued in anticipation of revenue.

**REPURCHASE AGREEMENT (REPO):** The purchase of securities, on a temporary basis, with the seller's simultaneous agreement to repurchase the securities back at a later date at a specified price that includes interest for the buyer's holding period.

**RULE 2a-7 OF THE INVESTMENT COMPANY ACT:** Applies to all money market mutual funds and mandates such funds to maintain certain standards.

**RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD:** Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

**SAFEKEEPING:** Storage and protection of a customer's financial assets, valuables, or documents, provided as a service by an institution serving as Agent or Custodian and, where control is delegated by the customer.

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

**SINKING FUND:** Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

**STANDARD & POOR'S CORPORATION:** (See Nationally Recognized Rating Services)



**STRUCTURED INVESTMENT VEHICLE (SIV):** A pool of investment assets that attempts to profit from credit spreads between short-term debt and long-term structured finance products such as asset-backed securities (ABS). Funding for SIVs comes from the issuance of commercial paper that is continuously renewed or rolled over; the proceeds are then invested in longer maturity assets that have less liquidity but pay higher yields. SIVs often employ great amounts of leverage to generate returns.

**SUPRANATIONAL:** An entity that is formed by two or more central governments with the purpose of promoting economic development for the member countries. Examples include the International Bank for Reconstruction and Development, International Finance Corporation, and the Inter-American Development Bank.

**THIRD-PARTY CUSTODIAL AGREEMENT:** (See Custodian)

**TOTAL RETURN:** The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period.

$$(\text{Price appreciation}) + (\text{Dividends paid}) + (\text{Capital gains}) = \text{Total Return}$$

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

**U. S. GOVERNMENT AGENCY SECURITIES:** Debt securities issued by U.S. Government sponsored enterprises and federally related institutions. These government agencies include: Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal National Mortgage Association (FNMA or Fannie Mae), Federal Farm Credit Banks (FFCB) and Tennessee Valley Authority (TVA).

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

**Treasury bills:** non-interest-bearing discount securities with maturities under one year issued by the U.S. Treasury to finance the national debt.

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

**Treasury bonds:** interest-bearing obligations issued by the U.S. Treasury with maturities that range from ten to thirty years from date of issue.

**UNIFORM NET CAPITAL RULE:** SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

**VARIABLE RATE NOTE:** (See Floating Rate Note)

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

**WEIGHTED AVERAGE MATURITY (WAM):** The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 60 days and no one security may have a maturity that exceeds 397 days.

**WHEN ISSUED (WI):** A conditional transaction in which an authorized new security has not been issued. All “when issued” transactions are settled when the actual security is issued.

**YIELD:** The annual rate of return on a debt investment computed as though held to maturity expressed as a percentage.

**YIELD TO CALL (YTC):** The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

**YIELD TO MATURITY (YTM):** The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.

**ZERO-COUPON BONDS/U.S. TREASURY STRIPS:** A bond which represents ownership of a single coupon or principal payment due on a U.S. Treasury bond. Zeros or strips mature at face value at a specified date in the future and make no payments until that date. They always sell at a discount from face value.