DeKalb County, Georgia
Finance Department – Treasury
Investment Management Policy – Policy & Procedure

I. Purpose

The purpose of this Investment Management Policy – Policy & Procedure (hereafter the “policy & procedure”) is to set forth the investment and operational policies for the management of the public funds of DeKalb County, Georgia (hereinafter the “County”). These policies have been adopted by, and can be changed only by, a Resolution of the Board of Commissioners.

The overriding purpose of this policy and procedure is to acknowledge clearly that any investment instrument or decision carries with it certain elements of risk. There are, however, numerous safeguards that can be instituted to minimize such risks while endeavoring to earn a market rate of return. These guidelines not only establish a framework for implementing those safeguards but they shall govern the investment and reinvestment of funds and the sale and liquidation of investment securities, as well as the monitoring, maintenance, accounting, reporting, and internal controls by and of the County with respect to these investment securities.

The~~se~~ policy & procedure are designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices. The County has a fiduciary responsibility to protect public funds and to prudently manage cash and investments to achieve the investment objectives of safety, liquidity, compliance and return. The protection of principal against default and investment risk is paramount.

II. Policy Statement

This policy was developed by the Deputy CFO under the authority delegated by the COO, to ensure effective management of the day-to-day operations of DeKalb County Government. This policy applies to the entire DeKalb County organization to which the Chief Executive Officer and the Board of Commissioners have authority and control. Additionally, this policy shall apply to all funds under budgetary control of the DeKalb County Board of Commissioners.

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III. Definitions of Terms:

A. Liquidity Portfolio – The liquidity portfolio consists of cash, money-market accounts, “money-market-like” funds such as Georgia Fund 1, Georgia Extended Asset Pool, and may include other investments such as short-term treasury notes, customized and collateralized bank products or other investments with maturities that are generally less than one year. The purpose of the liquidity portfolio is to provide for operating or other near-term cash needs and to obtain a short-term market return on significant portions of operating reserves.

B. Investment Portfolio – A portfolio of investments with average maturities or durations that match longer-term liabilities and with expected cash flows that match the attendant funding requirements. For example, this portfolio might hold securities matching the cash flow needs of large capital projects with long lead-in periods.

It is expected that the investment horizon for the Investment Portfolio will change based upon changing circumstances and cash flow requirements, but will be generally within the 1 – 5 year maturity range.

C. Bond Portfolio – A portfolio of investments with average maturities or durations that match longer-term liabilities and with expected cash flows that match the attendant funding requirements. This portfolio holds securities designated for specific construction projects and debt service payments. These investments must be segregated from other funds for compliance with the bond covenants.

D. Investment Manager – For purposes of this policy, an Investment Manager means an employee, individual, group, or firm possessing appropriate experience, credentials, resources and infrastructure, and who are engaged professionally in providing investment advice or in directly managing (buying, selling, holding) a portfolio of securities. Investment Manager can refer to private sector professionals who manage portfolios, to the Office of the State Treasurer at the State of Georgia or equivalent, or to any entity the County engages to manage a portfolio of cash or cash equivalents.

E. Investment Consultant – An Investment Consultant is an individual or firm hired to advise the Investment Committee, to assist the Department, and to represent the interests of the County in managing and monitoring the work and performance of Investment Managers. The Investment Consultant may provide related services such as asset allocation modeling or other services the County may need from time to time.

F. Fiduciary – Means any individual or group of individuals as defined in ERISA, Section 3 (21) (a).

G. Chief Operating Officer (COO) – Is the most senior and chief appointed management official in the County and who shall have supervisory responsibility for County operations.

H. Chief Financial Officer (CFO) – Is the senior appointed management official in the County who shall have oversight for the Finance Department.

I. Department – For purposes of this Policy shall mean the Finance Department.

J. Deputy Chief Financial Officer (hereinafter the "Deputy CFO") – The senior financial management official of the Finance Department, having supervisory responsibility for the Department. Also the Assistant Director of Finance.

K. Investment Committee – A committee comprised of (1) the CFO, (2) the Deputy CFO, (Assistant Director of Finance), (3) the Treasurer, (4) the Controller, (5) the Assistant Finance Director- Watershed Management, (6) representative from of the Office of Independent Internal Audit, and (7) representative from the designated Financial Advisor.

L. Securities – Refers to marketable investment securities that meet the legal mandates of Georgia law and the requirements of this Policy.

M. Benchmark – Unmanaged investment index that consists of a predetermined set of securities whose performance can be easily tracked and compared to a similar actively managed portfolio.

N. Investment Risk –

1. Interest Rate Risk: The potential for fluctuations in bond prices due to changes in interest rates.

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2. Credit Risk: The possibility that an issuer will fail to make timely payment of either interest or principal or whose prospects to make payments have diminished since the time of purchase.

3. Reinvestment Risk: The potential for a decline in the portfolio's income due to falling market interest rates.

4. Prepayment Risk: For Collateralized Mortgage Obligations ("CMOs") and Asset Backed Securities ("ABS") or Call Risk (for some agency and corporate bonds) the likelihood that, during periods of falling interest rates, securities with high stated interest rates will be prepaid or called prior to maturity, requiring the portfolio to invest the proceeds at generally lower interest rates.

5. Liquidity Risk: The possibility that the liquidity of the market for a security may decline thereby (i) making it more difficult to dispose of the security promptly; (ii) presenting difficulties in valuation of the security; and (iii) causing the security to experience greater price volatility.

6. Duration: A measurement of a financial asset's price sensitivity to changes in yield.

7. FFIEC High-Risk Security Test: The Federal Financial Institutions Examination Council (FFIEC) has derived three tests, an average life test, an average life sensitivity test, and a price sensitivity test to determine whether a derivative mortgage security is "high-risk", and thus ineligible to be held as an investment by US depository institutions.

IV. Related Documents and References:

Collateralization of Public Deposits Policy

V. Investment Policy:

A. Scope – This Investment Policy (hereinafter "policy") is comprehensive and is intended to govern the overall administration and investment management of those funds held in the County's Liquidity, Investment, and Bond Portfolios (unless other existing policies or indentures are in effect for such funds) (the "County Portfolio"), excluding pension and other post employee benefit trusts. This policy shall apply to such funds from the time of receipt until the time the funds ultimately leave the County's accounts. The County Portfolio includes assets in various operating and capital funds that are under the direct control of the Finance Department (hereinafter the "Department"), including, but not limited to, the following:
    1. Tax Supported Funds (General, etc.)
    2. Special Assessment Funds (Street Lighting, etc.)
    3. Special Revenue Funds
    4. Debt Service and Bond Proceeds
    5. Enterprise Funds
    6. Capital Project Funds
    7. Internal Service Funds
    8. Other Operating or Capital Funds that may be established

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The guidance set forth herein is to be strictly followed by all those responsible for any aspect of the management or administration of these funds.

All of the above funds, with the exception of certain Capital Project Funds, Water & Sewer Revenue Bonds, are currently commingled for investment purposes in the Concentration Account provided for in the County's Banking Security Contract. Those funds not in the Concentration Account are held in individual bank accounts or the State Local Government Investment Pool as provided for in the resolutions establishing the funds.

Investment activities, if any, by Constitutional officers holding various trust and agency funds, also reported in the DeKalb County Comprehensive Annual Financial Report, are not subject to the provisions of this policy.

Excess cash balances of individual operating funds and capital project funds may be commingled and placed in individual depository or investment accounts, unless otherwise restricted by law, policy or debt covenants. Bond funds should be deposited or invested according to applicable laws and bond covenants.

Interest income earned on depository balances will be allocated and credited to participating funds monthly based on the average daily cash balances held during the month. Investment income earned on investment securities and paid on interest payment dates will be credited to the source funds at the time of payment. Market value adjustments and interest accruals between interest payment dates will be made quarterly.

B. Investment Objectives – The investment objectives of the County are set forth below in order of priority and are applicable to both the Liquidity Portfolio and Investment Portfolio:

1. Safety of Principal: The single most important objective of the County's investment program is the preservation of principal of those funds within the portfolio. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

2. Adequate Liquidity: The portfolio shall be managed in such a manner that assures that funds are available as needed to meet those immediate and/or future operating requirements of the County, including but not limited to payroll, accounts payable, capital projects, debt service and any other payments.

3. Legality: County funds will at all times be invested in conformity with the laws of the State of Georgia, specifically O.C.G.A. Sec. 36-80-3, O.C.G.A. Sec. 36-80-4, and O.C.G.A. Sec. 36-83-4; and in conformity with bond ordinances or covenants, referenced in O.C.G.A. Sec. 36-82-7, this Investment Policy and the Department's written administrative procedures. Where there are policies contained in Debt Covenants and Official Statements, those provisions shall apply only to those funds, and are incorporated by reference within this policy.

4. Return on Investment: (**This section will be further developed by the Investment Committee once established.)** The County's portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. However, return is attempted through active management where the Investment Advisor utilizes a total return strategy (which includes both realized and unrealized gains and losses in the portfolios). This total return strategy seeks to increase the value of the County's portfolio through reinvestment of income and capital gains. The core of investments

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is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Despite this, an Investment Advisor may trade to recognize a loss from time to time to achieve a perceived relative value based on its potential to enhance the total return of the County's portfolio.

C. Delegation of Authority

1. Chief Operating Officer (COO): The COO or designee shall oversee the investment activities of the Deputy CFO and is hereby delegated the authority as necessary to carry out the various components of this Policy. The COO or designee may execute agreements or documents necessary to effectively administer the investment program.

2. Deputy Chief Financial Officer (Deputy CFO): Georgia law provides for assigning the Deputy CFO, who is subject to the supervision of the Chief Financial Officer (CFO), with direct responsibility for the management of the County's investment assets, including discretionary investment management decisions to buy, sell or hold individual investment securities within this Policy. The Deputy CFO shall have the authority to establish and implement the necessary organization structure and financial reporting and controls in order to achieve the objectives of this Policy. Procedures should include references to safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. The Deputy CFO shall discharge his or her duties solely in the interest of the County. The specific responsibilities of the Deputy CFO relating to the investment management of Portfolio assets include:

   i. Projecting and forecasting the County's overall financial and cash flow needs, and incorporating such requirements into the investment program.
   ii. Determining the County's risk tolerance and investment horizon, and communicating relevant information to the appropriate parties who are engaged in management and investment of County funds.
   iii. Recommending to the Investment Committee, when appropriate, qualified investment professionals. The Investment Committee shall have the final authority over the hiring of external private sector professionals that provide investment management or investment consulting services.
   iv. Regularly evaluating the administration and performance of the investment program for adherence to policies and achievement of objectives.
   v. Developing and monitoring controls and management procedures.
   vi. Making provision for financial audits and other reviews of the investment program.

3. Investment Committee: The County shall have an Investment Committee that serves in an advisory capacity. The Committee is responsible for adequately communicating appropriate objectives and goals to the Chairman, Board of Commissioners, COO, CFO and the Deputy CFO. The Investment Committee will be charged with the following activities:

   i. Establish procedures for calling and conducting its meetings.
   ii. Meet at least annually to review the administration and performance of the County's Investment Program.
   iii. Evaluate and approve changes to the Investment Policy.
   iv. Periodically deliberate such topics as economic outlook, portfolio diversification, risks and returns.

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v. Ensure adequate controls are in place and the County is in compliance with current law and internal policies.

The Finance Department shall provide administrative support to the Investment Committee. The Department will maintain written records of the Committee's activities and will provide investment reports pursuant to this Investment Policy.

The Investment Committee may directly select, contract for services, and otherwise engage Investment Managers, Investment Consultants and other professionals to assist in managing County funds. Such Investment Manager must be registered under the Investment Advisers Act of 1940 or exempt from registration.

4. Investment Manager: Each third-party Investment Manager engaged to provide professional investment management services must acknowledge in writing its acceptance of responsibility as a fiduciary under applicable regulations. Each Investment Manager will have discretion to make investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies, as outlined in this statement. Specific responsibilities of the investment manager(s) include:

   i. Discretionary investment management including decisions to buy, sell, or hold individual securities, within the guidelines established in this statement.
   ii. Reporting, on a timely basis, the quarterly investment performance results of the portfolio, comparisons to the appropriate benchmark(s), and other reports or information that may reasonably be requested.
   iii. Promptly communicating any major changes to economic outlook, investment strategy, or any factors, which affect implementation of investment process, or the investment objectives progress of the County's investment management to the Department.
   iv. Promptly informing the Deputy CFO regarding any material change in the investment organization. Examples include, but are not limited to, changes in portfolio management personnel, ownership structure and investment philosophy.
   v. Voting proxies on behalf of the County, and communicating such voting records to the Deputy CFO on a timely basis.

5. Investment Advisor: A third-party Investment Consultant's role shall be two-fold. The first and primary function is that of an Investment Advisor to the Investment Committee. The second duty is that of a Consultant assisting the Deputy CFO in the management, operations and administration of the investment program. An Investment Advisor may represent only the interests of the County and any other relationship that might provide basis for a conflict is expressly prohibited. Specific responsibilities of the Investment Advisor might include:
   i. Assisting the Investment Committee in the development of a periodic review of all aspects of the investment program, including benchmarking and establishment of investment goals.
   ii. Conducting Investment Manager searches when requested by the Department.
   iii. Monitoring the performance of the Investment Manager(s) and reporting same to the Deputy CFO and the Investment Committee.

D. Standard of Prudence – The standard of prudence to be used by investment officials shall be the "Prudent Person" standard and shall be applied in the context of managing the overall investment program. Investment officers acting in accordance with written procedures and this Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided significant deviations from expectations are reported to the Board of Commissioners in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this Policy. The "Prudent Person" rule states the following:

> Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment.

While the standard of prudence to be used by the investment officials who are officers or employees is the Prudent Person standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to a higher standard of "Prudent Expert". The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the person and/or firm hired shall exercise the judgement, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

The CFO, the Deputy CFO and other County employees and officials involved in the Investment process acting in accordance with the Code of Georgia, this policy and any other written procedures pertaining to the administration and management of the County's Portfolio and who exercise the proper due diligence shall be relieved of personal responsibility for an individual security's risk or market place changes, provided that any negative deviations are reported in a timely fashion to the County's Investment Committee and that reasonable and prudent action is taken to control any prevent any further adverse developments.

E. Ethics and Conflicts of Interest – **External contracted investment professionals in addition to Committee members, management and staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.** Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employee and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the County.

F. Internal Controls and Investment Procedures – As delegated by the COO, the Deputy CFO or designee shall establish a system of internal controls and operational procedures that are in writing and made a part of the County's financial operating procedures. The internal controls should be designed to prevent losses of funds, which might arise from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees. The written procedures should include reference to safekeeping, repurchase agreements, separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts, collateral/depository agreements, and "delivery-vs-payment" procedures. No person may engage in an investment transactions except as authorized under the terms of this policy.

   Independent auditors as a normal part of the annual financial audit of the County shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

G. Continuing Education - The Deputy CFO or designee and any other personnel responsible for overseeing investments shall attend at least one investment training session within 12 months after taking office or assuming duties and receive not less than 8 hours of instruction relating to investment responsibilities every two years.

H. Authorized Investments – and Portfolio Composition – Investments will be made subject to the cash flow needs and such cash flows are subject to revisions as market conditions and the County's needs change. When the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, the Deputy CFO or designee in consultation with the County's Investment Advisor(s) may sell the investment at the then-prevailing market price and place the proceeds into the proper account at the County's custodian.

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the County. Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the Deputy CFO or designee in consultation with the County's Investment Advisor. The Deputy CFO or designee, in consultation with the County's Investment Advisor, shall have the option to further restrict investment percentages from time to time based on market conditions, risk and diversification investment strategies. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment, at the time of purchase. Investments not listed in this policy are prohibited.

In accordance with the laws of the State of Georgia O.C.G.A. Sec. 36-80-3, O.C.G.A. Sec. 36-80-4, and O.C.G.A. Sec. 36-83-4, the County shall be permitted to invest in any of the following securities:

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement[1]	Maximum Maturity
U.S. Treasury	100%	100%	N/A	5.50 Years (5.50 Years avg. life[3] for GNMA)
GNMA		35%		
Other U.S. Government		10%		
Guaranteed (e.g. AID, GTC)				
Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB	100%	35%[2]	N/A	5.50 Years
Federal Agency/GSE other than those above		10%		
Municipals	100%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)	5.50 Years

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Agency Mortgage-Backed Securities (MBS)	100%	35%[2]	N/A	5.50 Years Avg. Life[3]
Non-Negotiable Collateralized Bank Deposits or Savings Accounts	25%	50%	None, if fully collateralized.	2 Years

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement[1]	Maximum Maturity
Repurchase Agreements (Repo or RP)	25%	20%	Counterparty (or if the counterparty is not rated by an NRSRO, then the counterparty's parent) must be rated in the Highest ST Rating Category (A-1/P-1, or equivalent) If the counterparty is a Federal Reserve Bank, no rating is required	360 Days
Prime banker's acceptances	100%	5%	Highest ST Rating Category (A-1/P-1, or equivalent)	270 Days
Certificates of deposit of Commercial Banks	75%	5%	N/A	5.50 Years
Certificates of deposit of Savings & Loan Banks	10%	5%	N/A	5.50 Years
Intergovernmental Pools (LGIPs)		5%	Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP, (AAAm/AAAf, S1, or equivalent)	N/A
Georgia Fund 1	100%	80%	Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP, (AAAm/AAAf, S1, or equivalent)	N/A
Georgia Fund 1 Extended Asset Pool		10%	Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP, (AAAm/AAAf, S1, or equivalent)	N/A

Notes:

1 Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization ("NRSRO"), unless otherwise noted. ST=Short-term; LT=Long-term.

2 Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.

3 The maturity limit for MBS is based on the expected average life at time of settlement, measured using Bloomberg or other industry standard methods.

* Federal National Mortgage Association (FNMA); Federal Home Loan Mortgage Corporation (FHLMC); Federal Home Loan Bank or its District banks (FHLB); Federal Farm Credit Bank (FFCB).

1. U.S. Treasury & Government Guaranteed - U.S. Treasury obligations, and obligations the

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principal and interest of which are backed or guaranteed by the full faith and credit of the U.S. Government.

2. Federal Agency/GSE - Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. Federal agency, instrumentality or government-sponsored enterprise (GSE).

3. Municipal Obligations: Bonds, notes and other evidences of indebtedness of the State of Georgia or other political subdivisions of the state upon which there is no default.

4. Agency Mortgage Backed Securities - Mortgage-backed securities (MBS), backed by residential, multi-family or commercial mortgages, that are issued or fully guaranteed as to principal and interest by a U.S. Federal agency or government sponsored enterprise, including but not limited to pass-throughs, collateralized mortgage obligations (CMOs) and REMICs.

5. Non-Negotiable Collateralized Bank Deposits or Savings Accounts in any national banking association, federal savings and loan association, trust company, savings institution or federal savings bank located in Georgia or organized under Georgia law. This includes customized, collateralized short term bank products offered by a County approved depository bank or qualified institution that is a member of the Federal Reserve System and/or regulated by the Comptroller of the Currency, the Federal Deposit Insurance Corporation or a Federal Reserve Bank.

   Bank deposits will be secured in accordance with the O.C.G.A. Sec. 45-8-12 and O.C.G.A. Sec. 50-17-59 that requires:

   i. Collateralization on all deposits of County funds in excess of the amount protected by federal deposit insurance or a surety bond with a market value equal to not less than 110 percent of the funds being secured; and,
   ii. Collateralization in the form of (1) bonds, bills, certificates of indebtedness, notes, or other direct obligations of the United States or of this state; (2) bonds, bills, certificates of indebtedness, notes, or other obligations of the counties or municipalities of this state; (3) bonds of any public authority created by the laws of this state, if the statute creating such authority provides that the bonds of the authority may be used for this purpose and the bonds have been duly validated as provided by law, and as to which there has been default in payment, either of principal or interest; (4) industrial revenue bonds or bonds of development authorities created by the laws of this state, which bond have been duly validated as provided by law and as to which there has been no default in payment, either of principal or interest; (5) bonds, bills, certificates of indebtedness, notes, or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest, or debt obligations issued by or securities guaranteed by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank of Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Corporation, or the Federal National Mortgage Association.

f. Repurchase Agreements: Contracts for the present purchase and subsequent resale at a specified time in the future of specific securities at specified prices at price differential representing the interest income to be earned by the County. Such contracts shall be invested in only if the following conditions are met:

i. The repurchase agreement has a term to maturity of no greater than three-hundred sixty (360) days or may be open-ended with an automatic overnight maturity.
ii. The contract is fully secured by deliverable U.S. Treasury or Federal Agency Obligations as described in (a) and (b) above (without limit to maturity), having a market value at all times of at least one hundred two percent (102%) of the amount of the contract;
iii. A master repurchase agreement of specific written, repurchase agreement governs the transaction;
iv. The securities are held free and clear of any lien and by an independent third party custodian acting solely as agent for the County (which may include a tri-party arrangement) and is:
    1. a Federal Reserve Bank; or,
    2. a bank which is a member of the Federal Deposit Insurance Corporation and which as combined capital, surplus and undivided profits of not less than $25 million;
v. A perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. in such securities is created for the benefit of the County;
vi. For repurchase agreements with terms to maturity of greater than one (1) day, the County will value the collateral securities continuously and require that if additional collateral is required then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated);
vii. The County will enter into repurchase agreements only with reputable firms that have a short-term debt rating of ‘A-1’ or higher or have a long-term debt rating of at least “AA” from a Nationally Recognized Statistical Rating Organization (“NRSROs”) that rates issuer and are;
viii. Primary government securities dealers who are members of the National Association of Securities Dealers, report daily to the Federal Reserve Bank of New York and have $25 billion in assets and $350 million in capital;
ix. A bank, savings bank or savings and loan association having $5 billion in assets and $500 million in capital and regulated by the Superintendent of Financial Institutions, or through an institution regulated by the Comptroller of the Currency, Federal Deposit Insurance Corporation, or Board of Governors of the Federal Reserve System; or
x. Diversified securities broker-dealers who are members of the National Association of Securities Dealers having $5 billion in assets and $350 million in capital and subject to regulation of capital standards by any state or federal regulatory agency.

g. Prime Bankers’ acceptances issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System may be purchased.

i. Municipal Obligations: Bonds, notes and other evidences of indebtedness of the State of Georgia or other political subdivisions of the state upon which there is no default.
ii. Certificates of Deposit which have deposits insured by the Federal Deposit Insurance Corporation; provided, however, that that portion of such certificates of deposit in excess of the amount insured by the Federal Deposit Insurance Corporation shall be collateralized or secured by direct obligations of this state or the United States which are of a par value equal to that portion of such certificates of deposit which would be uninsured in accordance with O.C.G.A. Sec. 36-80-3. While a maximum of 40% of the County’s Total Portfolio may be invested in Certificates of Deposit and up to a maximum of 50% of the County’s Total Portfolio may be invested with each approved County Depository Bank, no more than 5% of the County’s Total Portfolio may be invested in certificates of deposit and investment securities issued by a single Depository Bank.

This requirement excludes CDARS placements through Promontory Interfinancial Network as each CD placement is limited to a maximum value of Federal Deposit Insurance Corporation (FDIC) coverage of $250,000.00, and BNY Mellon is record-keeper for the FDIC.

iii. Local Government Investment Pool established by O.C.G.A. Sec. 36-83-8 managed by the State Treasurer of the State of Georgia including Georgia Fund 1 and Georgia Extended Asset Pool.

I. Maximum Maturity and Liquidity Requirements – Maintenance of adequate liquidity to meet the cash flow needs of the County is essential. Accordingly, the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with the cash requirements of the County in order to avoid the forced sale of securities prior to maturity.

For purposes of this policy, assets of the County shall be segregated into three categories based on expected liquidity needs and purposes – Liquidity Portfolio, Investment Portfolio and Bond Proceeds.

1. Liquidity Portfolio: Assets categorized as the short-term funds will be invested in permitted investments with an average maturity of twelve (12) months or less. The average weighted maturity of the Liquidity Portfolio will not exceed 360 days.

   Notwithstanding any other reserve policies, the Deputy CFO shall at all times endeavor to maintain a liquidity reserve set at a minimum of 1/12 of the total expenditures of the immediately preceding fiscal year. The reserve shall be held intact, to be used exclusively for emergencies or extraordinary unforeseen circumstances. This liquidity requirement applies to all major operating funds, which includes tax supported general government operating funds; special assessment funds; certain special revenue funds; enterprise operating; and internal service funds. Balances shall be placed only in liquid investments with an overall maturity not exceeding 60 days. In the event of a drawdown of an emergency liquidity fund, the Deputy CFO shall promptly and without delay initiate measures to replenish such liquidity account.

   The Deputy CFO may establish more restrictive temporary guidelines as may be required by the prevailing circumstances. The foregoing shall be construed to apply to the County's operating funds and not to capital project funds. For this policy, a major operating fund is any fund whose annual revenues are 10 percent or more of the total operating revenues.

2. Investment Portfolio: **(The investment portfolio, its composition and management will be determined by the Investment Committee once established.)** The Investment Portfolio will be invested in permitted investments with a final stated maturity of no more than five and one-half (5.50) years from the date of purchase settlement. At the time of purchase, settlement agency mortgage backed securities shall have an average life of no more than five and one-half (5.50) years.

   Notwithstanding these limitations, in no case will the assets in either category be invested in securities with a term to maturity that exceeds the expected disbursement date of those funds.

3. Bond Proceeds: Proceeds from the sale of bonds will be invested in compliance with the specific requirements of the bond covenants without further restriction as to the maximum term to maturity of securities purchased. However, the effective duration of the bond proceeds portfolio will not exceed two (2) years without the approval of the Investment Committee.

J. Prohibited Investments and Investment Practices:
1. Short sales (selling a specific security before it has been legally purchased);
2. Borrowing funds for the sole purpose of reinvesting the proceeds of such borrowing;
3. Commodities and Futures Contracts;
4. Private Placements;
5. Options;
6. Letter Stock;
7. Speculative Securities;
8. Investments not specifically addressed by this statement are forbidden without the Investment Committees written consent;
9. Domestic or International Equity Securities;
10. Fixed Income Mutual Funds;
11. Any derivative of any instrument that does not pass the FFIEC High Risk Security Test 1 and 2 at any time using Bloomberg median pre-payment speeds; and,
12. Any investment instrument prohibited by state law.

K. Investment of Bond Proceeds – The County intends to comply with all applicable sections of the Internal Revenue Code of 1986, Arbitrage Rebate Regulations and bond covenants with regard to the investment of bond proceeds. Accounting records will be maintained in a form and for a period of time sufficient to document compliance with these regulations.

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement[1]	Maximum Maturity
U.S. Treasury	100%	100%	N/A	5.50 Years
GNMA		35%		
Other U.S. Government Guaranteed (e.g. AID, GTC)		10%		
Federal Agency/GSE: Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, and the Central Bank for Cooperatives	100%	35%	N/A	5.50 Years
Municipals	100%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or	5.50 Years

			equivalent)	
Public Housing Agency	100%	None, if fully collateralized	None, if fully collateralized.	2 Years
Money Market Funds (MMFs)	100%	50%	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A
Certificates of deposit of banks which have deposits insured by the Federal Deposit Insurance Corporation	100%	25%	N/A	5.50 Years
Intergovernmental Pools (LGIPs)	100%	80%	Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP, (AAAm/AAAf, S1, or equivalent)	N/A
Notes: [1] Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization ("NRSRO"), unless otherwise noted. ST=Short-term; LT=Long-term.				

Bond proceeds investments will be limited to those securities authorized by O.C.G.A. Sec. 36-82-7 and include the following securities:

1. Full Faith & Credit of U.S. Government Obligations: Bonds or other obligations of the United States or of subsidiary corporations of the United States government which are fully guaranteed by such government.

2. Select Federal Agency Obligations: Obligations of agencies of the United States government issued by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, and the Central Bank for Cooperatives.

3. Municipal Obligations: Bonds or obligations of such county, municipal corporation, school district, political subdivision, authority, or body of bonds or obligations of this state or of other counties, municipal corporations, and political subdivisions of this state.

4. Public Housing Agencies: Bonds or other obligations issued by any public housing agency or municipal corporation in the United States.

5. Money Market Mutual Funds: No load, open-end management type investment company or investment trust registered under the Investment Company Act of 1940, as from time to time amended, invested in obligations referenced in "A" above and repurchase agreements fully collateralized by any such obligations.

6. Certificates of Deposit secured or collateralized by securities in an aggregate principal amount equal to at least to the amount of excess of insurance in (1) direct and general obligations of this state or of any county or municipal corporation in this state, (2) obligations of the United States or subsidiary corporations from A above, (3) obligations of the agencies of the United States government from C above, and (4) bonds, obligations, or project notes of public housing agencies, urban renewal agencies or municipalities.

7. Local Government Investment Pools created in O.C.G.A. Sec. 36-83-1 et seq.

L. Risk and Diversification - Assets held shall be diversified to control risks resulting from over concentration of assets in a specific maturity, issuer, instruments, dealer, or bank through which these instruments are bought and sold. The Deputy CFO or designee shall consult with the County's Investment Advisor to determine diversification strategies within the established guidelines.

M. Master Repurchase Agreement - The Deputy CFO or designee will as directed by the County's Investment Advisor require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Securities Industry and Financial Markets Association (SIFMA) Master Repurchase Agreement. All repurchase agreement transactions will adhere to requirements of the SIFMA Master Repurchase Agreement.

N. Selection, Approval of Brokers, Qualified Financial Institutions – The Deputy CFO or other designee shall only purchase securities from investment institutions which are designated as Primary Dealers by the Federal Reserve Bank of New York (source of information: http://www.newyorkfed.org/markets/pridealers_current.html).

The Deputy CFO or designee shall only enter into repurchase agreements with financial institutions that are Primary Dealers as designated by the Federal Reserve Bank of New York.

The Deputy CFO or designee shall maintain a list of financial institutions and broker/dealers that are approved for investment purposes and only firms meeting the following requirements will be eligible to serve as Qualified Institutions:

1. Regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
2. Capital of no less than $10,000,000;
3. Registered as a dealer under the Securities Exchange Act of 1934;
4. Member of the Financial Industry Regulatory Authority, Inc. (FINRA);
5. Registered to sell securities in Georgia;
6. The firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years;

No policy deposit shall be made except in a qualified public depository as established by state law.

The County's Investment Manager shall utilize and maintain its own list of approved primary and non-primary dealers.

The Deputy CFO and/or the County's Investment Manager shall maintain a list of financial institutions and broker/dealers that are approved for investment purposes ("Qualified Institutions").

All brokers, dealers and other financial institutions deemed to be Qualified Institutions shall be provided with current copies of the County's Investment Policy. A current audited financial statement prepared by an independent certified public accounting firm is required to be on file for each financial institution and broker/dealer with which the County transacts business. For each year that brokers, dealers and other financial institutions remain qualified, a current audited financial statement must be submitted to the County annually within six months after the end of the fiscal year.

In addition, all financial institutions interested in transacting securities trades with the County are required to complete a "Broker/Dealer Questionnaire and Certification". Investment staff shall conduct an annual review of the financial condition of approved financial institutions and broker/dealers to ensure they continue to meet the County's guidelines for qualifications.

O. Competitive Selection of Investment Instruments – It will be the policy of the County to transact all securities purchase/sales only with Qualified Institutions or approved Broker Dealers through a formal and competitive process requiring the solicitation and evaluation of at least three bids/offers. The County will accept the offer which (a) has the highest rate of return within the maturity required; and (b) optimizes the investment objective of the overall portfolio. When selling a security, the County will select the bid that generates the highest sale price.

It will be the responsibility of the personnel involved with each purchase/sale to produce and retain written records of each transaction including the name of the financial institutions solicited, rate quoted, description of the security, investment selected, and any special considerations that had an impact on the decision. If the lowest priced security (highest yield) was not selected for purchase, an explanation describing the rationale will be included in this record.

Primary fixed price federal agency offerings may be purchased from the list of Qualified Institutions without competitive solicitation if it is determined that no agency obligations meeting the County's requirements are available in the secondary market at a higher yield.

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

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

Monthly, the custodian shall provide the Accounting Manager or designee and/or the County's Investment Advisor with detail information on the securities held by the custodian. Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Only after receiving written authorization from the Accounting Manager or designee shall authorized securities be delivered "free". Securities held as collateral shall be held free and clear of any liens.

Appropriate County officials and representatives of the custodial agent responsible for, or in any manner involved with, the safekeeping and custody process of the County shall be bonded in such a fashion as to protect the County from losses from malfeasance and misfeasance.

Q. Performance Standards – **(Investment performance standards will be developed by the Investment Committee once established.)** In order to assist in the evaluation of the portfolios' performance, the County will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks will allow the County to measure its returns against other investors in the same markets.

1. The short-term investment portfolio shall be designed with the annual objective of exceeding the weighted average return (net book value rate of return) of the S&P Rated GIP Index Government 30-Day Gross of Fees Yield.

2. The long-term investment portfolio shall be designed with the annual objective of exceeding the return of the Bank of America Merrill Lynch 1-5 Year U.S. Treasury Index compared to the portfolio's total rate of return. The Bank of America Merrill Lynch 1-5 Year U.S. Treasury Index represents all U.S. Treasury securities maturing over one year, but less than five years. This maturity range is an appropriate benchmark based on the objectives of the County.

R. Reporting – The Deputy CFO or Investment Manager shall prepare an investment report not less than quarterly for the Investment Committee. The Investment Committee selected electronic dissemination of reports and information as the preferred method of distribution and notification. The investment report shall include: (i) a listing of the existing portfolio in terms of investment securities, amortized book value, maturity date, yield-on-cost, market value, credit rating and other features deemed relevant and (ii) a listing of all transactions executed during the month, if so requested. For purposes of internal reporting, the liquidity portfolio will include cash and short-term money market bank deposits and instruments and certificates of deposit. The investment portfolio will include all investments categorized as either short (less than 1 year) or long (greater than 1 year). The internal categories of liquidity and investment portfolio products may coordinate with account headings in SAP (i.e. cash and cash equivalent) but may not necessarily agree with GASB 40 reporting requirements that include cash and cash equivalents of less than 90 days.

The Deputy CFO and/or Investment Manager shall prepare and submit to the Investment Committee a "Semi-Annual Investment Report" that summarizes (i) recent market conditions, economic developments and anticipated investment conditions, (ii) the investment strategies employed in the most recent quarter, (iii) a description of all securities held in investment portfolios at month-end, (iv) the total rate of return for each quarter and year-to-date versus appropriate benchmarks, and (v) any areas of policy concern warranting possible revisions to current or planned investment strategies. The market values presented in these reports will be consistent with accounting guidelines in GASB Statement 31 pertaining to the valuation of investments and the treatment of unrealized gains/losses. Detailed cash and investment transactions are available upon request.

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VI. Quality Control and Quality Assurance:

It is the responsibility of the Finance Department Deputy CFO to ensure the presence of, and compliance with, procedures that provide sufficient guidance to affected County personnel to fulfill the intent of this policy.

VII. Metrics:

See "Performance Standards" Section N.

VIII. Records:

There are no records associated with this policy.

IX. Forms:

Not applicable.

X. Appendices:

Not applicable.

XI. Approving Final Decision

XII. Change Requirements

The DeKalb County Board of Commissioners has the authority to recommend changes, additions and deletions to this Policy through coordination with the County Finance Department.

XIII. Cross References

XIV. Version Control

1.0

Attachment A

Glossary of Cash and Investment Management Terms

The following is a glossary of key investing terms, many of which appear in the County's investment policy. This glossary clarifies the meaning of investment terms generally used in cash and investment management. This glossary has been adapted from the GFOA Sample Investment Policy and the Association of Public Treasurers of the United States and Canada's Model Investment Policy.

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

Agency. See "Federal Agency Securities."

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

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

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

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

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

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

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

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same credit standing as other FNMA discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

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

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

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

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

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

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

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

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

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

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

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Call Option. The right, but not the obligation, of an issuer of a security to redeem a security at a specified value and at a specified date or dates prior to its stated maturity date. Most fixed-income calls are a par, but can be at any previously established price. Securities issued with a call provision typically carry a higher yield than similar securities issued without a call feature. There are three primary types of call options (1) European - one-time calls, (2) Bermudan - periodically on a predetermined schedule (quarterly, semi-annual, annual), and (3) American - continuously callable at any time on or after the call date. There is usually a notice period of at least 5 business days prior to a call date.

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

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

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

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

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

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

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.

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

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

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

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

Custody. Safekeeping services offered by a bank, financial institution, or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement, and market values.

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

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

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

Derivatives. (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities, or commodities). For hedging purposes, common derivatives are options, futures, interest rate swaps, and swaptions. All Collateralized Mortgage Obligations (CMOs) are derivatives.

Derivative Security. Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

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

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

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

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

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

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

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

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

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

Fannie Mae. See "Federal National Mortgage Association."

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

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

Fed. See "Federal Reserve System."

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

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

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

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

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

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

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

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

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

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

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Federal Reserve System (the Fed). The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Fed Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven member Board of Governors known as the “Federal Reserve Board” and headed by its Chairman.

Financial Industry Regulatory Authority, Inc. (FINRA). A private corporation that acts as a self-regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD). Though sometimes mistaken for a government agency, it is a non-governmental organization that performs financial regulation of member brokerage firms and exchange markets. The government also has a regulatory arm for investments, the Securities and Exchange Commission (SEC).

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

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

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

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

Ginnie Mae. See "Government National Mortgage Association."

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

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

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

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

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

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

Interest-Only (IO) STRIP. A security based solely on the interest payments from the bond. After the principal has been repaid, interest payments stop and the value of the security falls to nothing.
Therefore, IOs are considered risky investments. Usually associated with mortgage-backed securities.

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

Control of collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

Separation of transaction authority from accounting and record keeping - A separation of duties is achieved by separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction.

Custodial safekeeping - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.

Avoidance of physical delivery securities - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

Clear delegation of authority to subordinate staff members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

Written confirmation of transactions for investments and wire transfers - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.

Development of a wire transfer agreement with the lead bank and third-party custodian - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

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

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

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

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

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

Local Government Investment Pool (LGIP). An investment by local governments in which their money is pooled as a method for managing local funds, (e.g., Georgia Fund 1).

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

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

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

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

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

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

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Money Market. The market in which short-term debt instruments (bills, commercial paper, bankers' acceptance, etc.) are issued and traded.

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

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

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

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

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

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

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

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

[(Total assets) - (Liabilities)]/(Number of shares outstanding)

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

Offered Price. See also "Ask Price."

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

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

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

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

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

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

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

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

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

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

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

Is organized and exists under the laws of the United States, the laws of this state or any other state or territory of the United States.

Has its principal place of business in this state or has a branch office in this state which is authorized under the laws of this state or of the United States to receive deposits in this state.

Has deposit insurance under the provision of the Federal Deposit Insurance Act, as amended, 12 U.S.C. ss.1811 et seq.

Has procedures and practices for accurate identification, classification, reporting, and collateralization of public deposits.

Meets all requirements of Chapter 280, F.S.

Has been designated by the Chief Financial Officer as a qualified public depository.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Supranational. Supranational organizations are international financial institutions that are generally established by agreements among nations, with member nations contributing capital and participating in management. These agreements provide for limited immunity from the laws of member countries. Bonds issued by these institutions are part of the broader class of Supranational, Sovereign, and Non-U.S. Agency (SSA) sector bonds. Supranational bonds finance economic and infrastructure development and support environmental protection, poverty reduction, and renewable energy around the globe. For example, the World Bank, International Finance Corporation (IFC), and African Development Bank (AfDB) have "green bond" programs specifically designed for energy resource conservation and management.
Supranational bonds, which are issued by multi-national organizations that transcend national boundaries. Examples include the World Bank, African Development Bank, and European Investment Bank.

Swap. Trading one asset for another.

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

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

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

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

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

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

Treasury Notes. Intermediate interest-bearing debt securities backed by the U.S. government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury. The Treasury currently issues 2-year, 3-year, 5-year, and 10-year Treasury Notes.

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

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

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

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

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

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

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

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

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

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

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Attachment B

Investment Pool/Fund Questionnaire

1. A description of eligible investment securities, and a written statement of investment policy and objectives.

2. A description of interest calculations and how it is distributed, and how gains and losses are treated.

3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.

4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.

5. A schedule for receiving statements and portfolio listings.

6. Are reserves, retained earnings, etc. utilized by the pool/fund?

7. A fee schedule, and when and how is it assessed.

8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?