

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
ADMINISTRATIVE CODE**

INVESTMENT POLICY AND GUIDELINES	§2100-§2109
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§2100 PURPOSE

The purpose of this policy is to set forth the investment and operational policies for the management of the public funds of Municipal Water District of Orange County. These policies have been adopted by, and can be changed only by a majority vote of the Board of Directors.

These policies are designed to ensure the prudent management of public funds, the safety of principal, the availability of operating funds when needed, and an investment return competitive with those of comparable funds and financial market indexes.

A copy of this policy will be provided to all investment brokers and investment managers doing business with the Municipal Water District of Orange County. Receipt of this policy, including confirmation that it has been reviewed by persons dealing directly with the Municipal Water District of Orange County's account will be received prior to any organization providing investment services to the Municipal Water District of Orange County.

§2101 STATUTORY AND DELEGATED AUTHORITY TO INVEST FUNDS

Authority to manage the investment of surplus funds is derived from California Government Code Sections 53601, et seq. In accordance with Section 53607 of the Government Code of the State of California, the authority of the Board of Directors to invest public funds may be delegated to the Treasurer for a one-year period, which may be renewed annually.

The Municipal Water District of Orange County (MWDOC) Board of Directors has expressly delegated the investment authority of the Board of Directors to the Treasurer pursuant to Resolution No. 1166. By Resolution No. 1277, the Board of Directors created the office of Deputy Treasurer and delegated to the Deputy Treasurer the authority to direct investment of MWDOC funds under the circumstances set forth in said Resolution, and to make a monthly report of those transactions to the Board. The Board of Directors created the office of Alternate Deputy Treasurer by Resolution No. 1434 and specified circumstances under which the Alternate Deputy Treasurer would have authority to direct the investment of MWDOC funds.

No person may engage in an investment transaction on behalf of MWDOC unless he or she has been duly appointed by the Board of Directors to the office of Treasurer, Deputy Treasurer, or Alternate Deputy Treasurer, and subject to the limitations and conditions set forth in the Resolutions establishing those offices and the terms of this policy. Notwithstanding the foregoing, upon the occurrence of a vacancy in the office of

Treasurer, the Board of Directors may appoint an Acting Treasurer, who shall have and exercise the authority delegated to the Treasurer until appointment of a successor Treasurer by the Board of Directors.

The delegations in Resolution Nos. 1277 and 1434 are renewed on the adoption of this Policy. The Treasurer shall be responsible for all transactions undertaken and shall establish procedures and a system of internal controls to regulate the activities of subordinate officials.

§2101.5 COMPLIANCE EXCEPTIONS REPORTING

Any compliance exceptions with the Investment Policy and Guidelines (IPG) will be reported within 72 hours to the General Manager, Board President, and the Chair of the Administration & Finance Committee. At the time of reporting, a recommended resolution to the matter shall be included. Notification shall also be included in the monthly Treasurer's Report to the Board of Directors with resolution noted.

§2102 ORGANIZATION

The organizational structure of the investment functions of MWDOC shall consist of the Board of Directors, the Administration & Finance Committee, the Treasurer and Deputy Treasurers. The responsibilities of these groups are as follows:

Board of Directors - the elected body responsible for the administration and investment of the assets of MWDOC. The Board may acquire, hold, manage, purchase, sell, assign, trade, transfer and/or dispose of any security, evidence of debt, or other investment in which MWDOC's assets may be invested by law. To assist them in discharging their responsibilities, the Board shall appoint a Treasurer, Deputy Treasurers and custodians of assets.

Administration & Finance Committee - appointed by the Board to review transactions, performance and asset mix, monitor, recommend policy, and propose adjustments for Board approval.

Treasurer - responsible for the administration and the investment of the funds, subject to the policies and restrictions set by the Board. The Treasurer as investment officer of MWDOC is granted full authority and responsibility by the Board in the purchase, sale, assignment, exchange and transfer of securities and for the safe custody of security holdings, subject to Board policies, rules, regulations and directives consistent with regulatory and statutory limitations. The Treasurer is responsible for interpreting, administering and advising on legal requirements, investment policies and strategies; collecting income, preparation of reports. Also responsible for Deputy Treasurer, and investment staff compliance with this Investment Policy and guidelines.

Deputy Treasurers - act in the absence of the Treasurer as specified within the Resolution of appointment to fulfill the duties and responsibilities as assigned by the Treasurer.

§2103 INVESTMENT PHILOSOPHY

Except where specifically directed by the State Constitution, statutes or regulations, the general investment policies of MWDOC will be guided by the prudent investor standard (“Standard”) set forth in California Government Code Section 53600.3. Under this Standard, those with investment responsibility for public funds are trustees and, as trustees, 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 MWDOC, 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.

This Standard shall be applied in the context of managing the overall investment portfolio. The investment officer, acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

§2104 SCOPE

It is intended that this Investment Policy cover all funds and investment activities of MWDOC. Any reference to the portfolio shall mean the collection of MWDOC securities held by the Treasurer. Those securities held in Trust or escrow by a third-party Trustee or escrow agent on behalf of MWDOC are invested under the Treasurer’s direction in accordance with this Investment Policy and the terms of the specific escrow or trust agreements related to the funds.

MWDOC funds are divided into two categories, and the investment objectives and policies vary with the nature of the fund.

- Operating and Fiduciary Funds - These funds are to provide for the ordinary annual operating expenses of MWDOC (General Fund, Water Fund) and Funds to provide for trustee functions and expenditures (WFC, with the exception of the Debt Service Reserve) and other specified recurring and non-recurring purposes where MWDOC serves in a fiduciary role. These funds are considered “short-term” for investment purposes and will be invested to provide the safety and liquidity to meet all anticipated expenditures.
- Reserve Funds – These funds are designated for contingencies or emergencies and may be used to supplement the other funds as necessary. These funds may be invested “longer-term” as defined in this Investment Policy.

§2105 INVESTMENT OBJECTIVES

When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing MWDOC's funds, the primary objective is to safeguard the principal of the funds. The secondary objective is to meet the liquidity needs of MWDOC. The third objective is to achieve a maximum return on invested funds (California Government Code Section 53600.5.). It is the policy of MWDOC to invest funds in a manner to obtain the highest yield possible while meeting the daily cash flow demands of MWDOC as long as investments meet the criteria established by this investment policy for safety and liquidity and conform to all laws governing the investment of MWDOC's funds.

Safety of Principal.

Safety of principal is the foremost objective of MWDOC. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they arise from securities defaults, institution default, broker-dealer default, or erosion of market value of securities. MWDOC shall mitigate the risk to the principal of invested funds by limiting credit and interest rate risks. Credit risk is the risk of loss due to the failure of a security's issuer or backer. Interest rate risk is the risk that the market value of the MWDOC's portfolio will change due to an increase/decrease in general interest rates.

- 1) Credit risk will be mitigated by:
 - (a) Limiting investments to only the most creditworthy types of permissible investments as described in Section 2106;
 - (b) By pre-qualifying the financial institutions with which the Agency will do business; and
 - (c) By diversifying the investment portfolio so that the potential failure of any one issue or issuer will not place an undue financial burden on the District.

- 2) Interest rate risk will be mitigated by:
 - (a) Structuring the portfolio so that securities mature to meet the District's cash requirements for ongoing obligations, thereby reducing the possible need to sell securities on the open market at a loss prior to their maturity to meet those requirements; and
 - (b) Investing primarily in shorter term securities.

Liquidity

Availability of sufficient cash to pay for current expenditures shall be maintained. An adequate percentage of the portfolio shall be maintained in liquid short-term securities which can be converted to cash as necessary to meet disbursement requirements. Since cash requirements cannot always be anticipated, sufficient investments in securities with active secondary or resale markets shall be utilized.

Rates of Return

Yield on investments shall be considered only after the basic requirements of safety and liquidity have been met. The investment portfolio shall be designed to attain a market average rate of return throughout budgetary and economic cycles, taking into account the MWDOC's risk constraints, the composition and cash flow characteristics of the portfolio, and applicable laws.

§2106 INVESTMENT POLICY GUIDELINES

MWDOC authorized investment types, amounts, maturities, and other characteristics are stated in the Government Code Section 53601 (as periodically amended), and with the following exceptions as noted below.

- Collective Investment Pools - Assets of any of the funds may be invested in collective investment pools run and managed by other public bodies and banks that are approved by the Board of Directors. However, no such investment shall be made in a pool where the investment objectives differ from the investment objectives listed in Section 2105 of this investment policy, nor should any investment be made in a fund that engages in market timing or anticipating interest rate changes or that uses derivatives or other securities other than as a hedge against interest rate risk. The investment shall not exceed 20% of portfolio in effect immediately after such investment and no more than 10% in one pool.
- Money Market Mutual Funds - Investment in shares of money market mutual funds may be made if the investments meet the same restrictions as those of collective investment pools. In addition, purchase of these funds must not result in payment of a purchase premium or commission. These mutual funds must attain the highest ranking of two nationally recognized ratings services and the investment adviser must be registered with the Securities and Exchange Commission (SEC) as an investment adviser with not less than five years' experience managing market mutual funds with investment portfolios of greater than \$500 million. An investment shall not exceed 20% of portfolio in effect immediately after such investment.
- Cash Holdings - The portfolio will hold sufficient cash equivalent investments to ensure availability of sufficient funds to meet known obligations for the next three months. Idle cash will be invested to the fullest extent practicable in interest-bearing investments.
- Other permissible investments for the Operating and Fiduciary funds are:
 - Bank checking accounts, time deposits or certificates of deposit not to exceed the current Federal Deposit Insurance Corporation (FDIC) limit without being collateralized.
 - Negotiable Certificates of Deposit shall not exceed 30% of portfolio in

effect immediately after such investment and no more than 5% in one issuer.

- U.S. Treasury obligations.
- U.S. Government Agency obligations and, U.S. Government Instrumentality obligations. May not invest more than 50% of portfolio from one issuer.
- Prime Commercial Paper rated A-1/P-1/F-1 by Moody's, Standard and Poor's or Fitch. May not exceed 25% of portfolio in effect immediately after such investment and may purchase no more than 10% of the outstanding commercial paper of any single issuer. The maximum maturity for Commercial Paper is 270 days.
- Prime Banker's Acceptances rated A-1/P-1/F-1 by Moody's, Standard and Poor's or Fitch shall not exceed 40% of portfolio in effect immediately after such investment and no more than 5% may be of any one commercial bank. The maximum maturity is 180 days.
- Corporate Securities (Medium-Term Notes) with a rating of "A" or better by at least two nationally recognized rating services Shall not exceed 30% of portfolio in effect immediately after such investment, with no more than 10% in one issuer.
- Loans with an agreement for the collateral to be repurchased by the borrower (Repurchase Agreements); the amount of such instruments will not exceed 20% of the market value of the portfolio with no more than 10% from one issuer. Maximum maturity is 1 year. U.S. Treasury and Agency securities are acceptable collateral with a market value of at least 102% of the value of the Repurchase Agreement. Prior to investment, a Master Repurchase Agreement will be signed with the qualified counterparty.

- Permissible investments for Reserve Funds are:
 - All investments permitted for the Operating and Fiduciary funds, except maturities may not exceed five years without Board approval prior to investment.

- Prohibited Investments and Investment Practices - The following are prohibited:
 - Purchases on margin or short sales.
 - "Derivative" securities of any type.
 - Lending securities with an agreement to buy them back after a stated period of time (Reverse Repurchase Agreements).
 - Futures, Options and Margin Trading
 - In no instance shall a swap be used in speculation. Losses are only acceptable if the proposed swap or trade can clearly enhance quality or yield (value) over the life of the new security on a Total Return basis.
 - Investments are limited to maturities of five years or less without express authorization of the Board prior to the investment.

- Diversification - The investment portfolio will be diversified to avoid undue concentration in securities of one type or securities of one financial institution, so that no single investment or class of investments can have a disproportionate impact on the total portfolio. This restriction does not apply to U.S. Treasury securities.
- Exemptions - Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by the current policy.

§2107 EXECUTION

The responsibility for the execution of security transactions shall rest with such qualified members of the investment staff as designated by the Board. The selection of the broker-dealer for a specific transaction shall be based on price and yield quotations. Every effort shall be made to obtain appropriate discounts on individual orders.

Security orders shall be placed on the basis of accepted investment practices. All security transactions, including for repurchase agreements, entered into by MWDOC shall be on a Delivery-vs.-Payment (DVP) basis, i.e. payment will be made upon receipt of the securities to the safekeeping or trust account or custodial facility. All securities shall be held in MWDOC's name pursuant to an agreement and all financial institutions are instructed to mail confirmation and safekeeping receipts directly to MWDOC within three business days after the trade.

Receipts for the confirmation of trades of authorized securities will include information on trade date, par value, maturity, interest rate, price, yield, settlement date, description of securities purchased, agency's name, amount due, and third party custodial information.

§2108 PERSONAL CONDUCT

The Board of Directors of Municipal Water District of Orange County is acutely aware of the responsibilities the staff has in administering the investment assets of MWDOC. Members of the Board of Directors, the Treasurer, Deputy Treasurers and members of the investment staff may not have a direct or indirect interest in the gains or profits of any investment made by MWDOC and may not receive any pay or emolument (profit arising from office or employment usually in the form of compensation or perquisites) for services other than as designated by MWDOC for compensation and authorized expenses.

All persons responsible for investment decisions or who are involved in the management of MWDOC assets shall be governed in their personal investment activities by the codes of conduct established by the applicable state statutes, the Financial Industry Regulatory Authority (FINRA), the Securities and Exchange Commission, and the Code of Ethics and Standards of Professional Conduct of the Association for Investment Management and Research.

All persons responsible for investment decisions or who are involved in the management of MWDOC assets shall refrain from any personal business activity that could conflict with the proper execution and management of the MWDOC investment program, or that could impair their ability to make impartial investment decisions.

§2109 REPORTING

The Treasurer shall prepare an investment report monthly, including a management summary that provides the status of the current investment portfolio and transactions made over the last month. The Report shall be submitted within forty-five (45) days following the month ended. The report should be provided to and reviewed by the General Manager, the Administration & Finance Committee and provided to the Board of Directors. The report will include the following:

- A listing of individual securities held at the end of the reporting period;
- Average weighted yield to maturity of portfolio on MWDOC investments;
- Listing of investments by maturity date;
- Market values of current investments;
- Percentage of the total portfolio which each type of investment represents.

This investment policy shall be reviewed by the Administration and Finance Committee annually and as frequently as necessary, to enable the Treasurer to respond to changing economic and market conditions.

§2110 GLOSSARY

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): A set of government financial statements comprising the financial report of a government entity that complies with the accounting requirements of the Governmental Accounting Standards Board (GASB). It is composed of three sections: Introductory, Financial and Statistical.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

BROKER-DEALER: A person or firm acting as a principal in securities transaction as either a

broker or a dealer depending on the transaction. Technically, a broker is only an agent who executes orders on behalf of clients, whereas a dealer acts as a principal and trades from the firm's own account. Transaction confirmations must disclose this information. Because most brokerage firms act as both brokers and principals, the term broker-dealer is commonly used to describe them.

CASH EQUIVALENTS (CE): Highly liquid and safe instruments or investments that can be converted into cash immediately. Examples include bank accounts, money market funds, and Treasury bills.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity that usually pays interest. Also referred to as Negotiable CD's, they are insured by FDIC up to \$250,000, but they are not collateralized beyond that amount.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER: Short-term unsecured promissory note issued by corporations or municipalities with maturities ranging from 2 to 270 days.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

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

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

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).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (*e.g., U.S. Treasury Bills.*)

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

DURATION: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per entity.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 3,543 commercial banks that are members of the system.

FITCH, INC.: (See Nationally Recognized Statistical Rating Organization).

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Residential mortgage-backed security (MBS) instruments --influencing the volume of bank credit guaranteed by GNMA and issued by geographically diverse mortgage companies, commercial banks, and thrifts of all sizes, as well as state housing finance agencies. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

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

MID TERM NOTES: Debt securities issued by a corporation or depository institution with a maturity of five years or less. This can also include debt securities originally issued for maturities longer than five years, but which have now fallen within the five year maturity range. If issued by a bank they are also referred to as "bank notes".

MOODY'S INVESTORS SERVICES, INC.: (See Nationally Recognized Statistical Rating Organization).

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

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION: Firms that review the creditworthiness of the issuers of debt securities and express their opinion in the form of letter ratings (e.g., AAA, AA, A, BBB, etc.). The primary rating agencies are the following Standard & Poor's Corporation, Moody's Investor Services, Inc., and Fitch, Inc.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

OPTIONS: A contract that gives the buyer the right to buy or sell an obligation at a specified price for a specified time.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15(C) 3-1: See Uniform Net Capital Rule.

STANDARD & POOR’S CORPORATION: (See Nationally Recognized Statistical Rating Organization).

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up

coupons, floating rate coupons, and derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TOTAL RETURN: A measure of performance, Total Return is the actual rate of return of an investment or a pool of investments, over a given evaluation period. Total Return accounts for two categories of return: income and capital appreciation. Income includes interest paid by fixed-income investments, distributions or dividends. Capital appreciation represents the change in the market price of an asset.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

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

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

U.S. GOVERNMENT AGENCY SECURITIES: Debt securities issued by the U.S. Government sponsored enterprises and federally related institutions (FHLB, Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), FNMA).

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

R1166 - 3/23/83; R1277 - 12/18/85; R1345 - 3/2/88; R1398 - 11/1/89; R1429 - 1/16/91; R1434 - 4/3/91; R1460 - 4/1/92; R1483 - 3/17/93; R1503 - 2/16/94; R1508 - 3/16/94; R1538 - 4/19/95; R1541 - 5/17/95; R1560 - 5/15/96; R1566; - 10/16/96; Motion - 11/25/96; R1584 - 5/21/97; R1694 - 4/17/02; R1718 - 6/18/03; R1736 - 5/19/04; R1880 - 5/19/10; R1907 - 5/18/11; R1942 - 10/17/12; M-6/17/15; R-2032 5/18/16; R-2055 6/21/17; R-2059 8/16/17; R-2084 5/15/19; R-2114 5/19/21; R-2140 5/17/23

