City of South San Francisco
Adopted Investment Policy
Fiscal Year 2024-25

PURPOSE:

The following statement is intended to provide guidelines for the "Prudent Investor Standard" of investment of the City's temporary idle cash and to outline the policies for an effective cash management system.

A. *Prudent Investor Standard***:** Management of the City's investments is governed by the Prudent Investor Standard as set forth in the California Government Code 53600.3:

> **"…**all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

The City's cash management system's goal is to accurately monitor and forecast revenues and expenditures enabling the City to invest funds to the fullest extent possible. The City Treasurer attempts to obtain the highest yield possible as long as investments meet the criteria established for safety and liquidity. This Investment Policy applies to all City funds except retirement, pension, or bond proceeds or bond reserves, which have their own constraining requirements.

The investment policies and practices of the Treasurer of the City of South San Francisco are based upon federal, state, and local laws as well as prudent money management. The primary objectives of these policies are, in priority order:

1. To assure compliance with all federal, state, and local laws governing the investment of monies.

2. To maintain the principal of the City's investments.

3. To remain sufficiently liquid to meet all expenses.

4. After safety and liquidity are assured, to generate the maximum amount of investment income within the parameters of this statement of investment policy.

INVESTMENT OBJECTIVES:

1. SAFETY OF PRINCIPAL is the foremost objective of the Investment Policy. The Treasurer shall seek to ensure that capital losses are avoided with each investment transaction. The objective is to mitigate credit risk (the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt) and interest rate risk (the market value of the security in the portfolio will fall due to changes in general interest rates).

2. LIQUIDITY is the second most important objective of the Investment Policy. It is important that a portion of the portfolio contain investments, which can be easily liquidated with minimal, or no risk to principal and/or interest. The longest maturity of any investment shall be five years. The portfolio shall be structured so that sufficient funds are readily available to meet all reasonably anticipated operating expenses.

3. YIELD is the return earned on monies invested. The City's funds shall be designed to attain a rate of return throughout budgetary and economic cycles which is approximately equal to the return on a Market Benchmark Index which will be reported to the City Council on a periodic basis. The current index that is consistent with this policy, the market, and the cash flow needs of the City is the 1-5 year Government Index. Yield will be considered only after the basic requirements of safety, liquidity, and credit quality have been met.

INVESTMENT POLICY:

The City is governed by the California Government Code, Section 53600 et.seq. Within the context of these limitations, the following investments are authorized:

U.S. TREASURY SECURITIES for which the full faith and credit of the U.S. are pledged for the payment of principal and interest. There is no limit to the percentage of the portfolio that can be invested in U.S. Treasuries. However, their maturities shall be limited to 5 years or less.

FEDERAL AGENCY OR UNITED STATES GOVERNMENT SPONSORED ENTERPRISE OBLIGATIONS, or other instruments, including those issued by federal agencies or United States government-sponsored enterprises. The amount of any one issuer shall not exceed 25 percent of the portfolio, with the maturity not to exceed 5 years. Examples include the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Tennessee Valley Authority (TVA).

SUPRANATIONALS securities that are unsubordinated obligations issued by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB). The securities must be rated in a rating category of "AA" or higher by a nationally recognized statistical rating organization. No more than 30% of the total portfolio may be invested in these securities. No more than 10% of the total portfolio shall be invested in any single issuer. The maximum maturity of any security of this type shall not exceed five years.

CORPORATE MEDIUM TERM NOTES issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Purchases of medium-term notes may not exceed 30 percent of the City's surplus money which may be invested pursuant to this section. The maximum maturity shall not be greater than 5 years

ASSET BACKED SECURITIES including mortgage pass-through, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond with a maximum maturity of five years; excluding issuers of the US Government of its agencies. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service. Purchase of securities authorized by this subdivision may not exceed 20 percent of the City's surplus money that may be invested pursuant to this section.

COMMERCIAL PAPER must be of prime quality of the highest rating by both Moody's and Standard and Poor's (P-1 by Moody's and A-1 by Standard and Poor's). Eligible paper is limited to corporations organized and operating within the U.S. and having total assets of at least $500,000,000. There are also limitations as to the total percent (25%) of the portfolio that may be invested in commercial paper, the time of investment (270 days) and the amount of any one issuer shall not exceed 5 percent of the portfolio.

NEGOTIABLE CERTIFICATES OF DEPOSIT issued by a nationally or state chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state licensed branch of a foreign bank. The amount of a negotiable certificate of deposit insured up to the FDIC limit does not require any credit ratings. Any amount above the FDIC insured limit must be issued by institutions which have short term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO. No more than 30% of the total portfolio may be invested in negotiable certificates of deposit and no more than 5% of the portfolio may be invested in any single issuer. The maximum maturity shall not be greater than 5 years

REPURCHASE AGREEMENTS (Repos) allow a purchase of securities by a local agency; by agreement, the seller will repurchase the securities on or before a specified date and for a specified amount. The maturity should not exceed ninety days. Repos should only be purchased when a purchase agreement is executed with a bank in which the underlying security shall have a market value of at least: 102% for U.S. Treasuries or 105% for U.S. Agencies of the funds borrowed. Pledged securities must be held by a third party custodian. The issuing counter party shall be rated in a rating category of "AA" or its equivalent or better by nationally recognized rating services (Standard and Poor's and Moody's).

THE LOCAL AGENCY INVESTMENT FUND is a pooled fund managed by the State Treasurer whose permitted investments are identified in the Government Code Section

164291. LAIF offers high liquidity as deposits and withdrawals can be wired to and from South San Francisco on the same day, provided the request is made before 10:00 A.M. No maximum limit for LAIF is set by this investment policy.

MUTUAL FUNDS are shares of beneficial interest issued by diversified management companies, as defined by Section 23701 M of the Revenue and Taxation Code. To be eligible for investment, these funds must strive to maintain a net asset value of $1.00 per share at all times and:

a) Attain the highest ranking in the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services; or

b) Have an investment advisor registered with the Securities and Exchange Commission with not less than five years experience investing in securities and obligations, and with assets under management in excess of five hundred million dollars; and

c) Invest solely in those securities and obligations authorized by Sections 53601 and 53635 of the California Government Code. Where the City's Investment Policy may be more restrictive than the State Code, the Policy authorizes investments in mutual funds that shall have minimal investment in securities otherwise restricted by the City's Policy. Minimal investment is defined as less than 5 percent of the mutual fund portfolio.

Mutual fund investments shall not exceed 20% of the portfolio, with no more than 10% of the portfolio invested with any one institution.

PROHIBITED INVESTMENTS:

Instruments not expressly authorized are prohibited. In accordance with Government Code Section 53601.6, investment in inverse floaters, range notes or mortgage derived interest-only strips is prohibited, as are derivatives. Investment in any security that could result in a zero interest accrual if held to maturity is also prohibited. The purchase of a security with a forward settlement date exceeding 45 days from the trade date is prohibited.

MAXIMUM MATURITY:

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities.

The City will not invest in securities maturing more than five (5) years from the date of trade settlement, unless the City Council has by resolution granted authority to make such an investment.

SUMMARY OF AUTHORIZED INVESTMENTS:

Instrument	Limitations Minimum Rating	% of Portfolio	% in any single Issuer	Maximum Maturity	Minimum Collateral
U.S. Treasuries		100%	100%	5 years	
U.S. Agencies		100%	25%	5 years	
Supranational	AA	30 %	10%	5 years	
Corporate MTNs	A	30 %	5%	5 years	
Asset Backed Security	AA	20 %	5%	5 years	
Commercial Paper	P1/A1	25 %	5%	270 days	
Negotiable Certificates of Deposit	A-1 or A	30%	5%	5 years	
Repurchase Agreements					
Issuing Counter Party	AA				
Collateral:					
If U.S. Treasuries					102%
If U.S. Agencies					105%
Local Agency Investment Fund (LAIF)		100%			
Mutual Funds	Aaa Moody's/ AAAm S&P	20%	10%		

AUTHORIZED INVESTMENTS PERSONNEL:

The City Treasurer and any Deputy Treasurers he or she appoints are authorized to approve investment transactions. Deputy Treasurers shall include at a minimum the City Finance Director.

MITIGATING CREDIT RISK:

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The City shall mitigate credit risk by adopting the following strategies:

1. No more than 5% of the total portfolio may be invested in securities of any single issuer, other than:
   a) U.S. Treasuries and LAIF, which have no limit; and

b) U.S. Agencies, which shall be limited to no more than 25% of the portfolio in any one issuing Agency. No more than 20% of the portfolio shall be invested in federal agency callable securities. Supranational and Money Market Mutual Fund securities shall be limited to no more than 10% of the portfolio in any one issuer.

2. The City Treasurer may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or City's risk preferences; and,

3. If securities owned by the City are downgraded to a level below the credit quality required by this Investment Policy, it shall be the City Treasurer's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

   a) If a security is downgraded, the Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.

   b) If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the City Council.

DEPOSITORY SERVICES:

Monies must be deposited in state or national banks, state or federal savings and loan associations, or state or federal credit unions in the state of California. The monies may be in inactive deposits, active deposits, or interest-bearing active deposits. The deposits in any institution cannot exceed the amount of the bank's or savings and loan's paid up capital and surplus.

The bank, savings and loan, or federal credit union must secure the active and inactive deposits with eligible government securities having a market value of at least 110% of the total amount of the deposits.

Funds held in a bank should be limited to weekly cash flow needs, and excess funds should be either invested in LAIF or a money market mutual fund. Any depository institution used by the City should provide overnight sweep vehicles that comply with this Investment Policy and the State Government Code.

QUALIFIED DEALERS AND INSTITUTIONS:

Except for transactions with the State and County investment pools, the City shall transact investment business only with banks, savings and loans, and with investment securities dealers as defined in Government Code Section 53601.5:

> "The purchase by a local agency of any investment authorized pursuant to Section 53601 or 53601.1, not purchased directly from the issuer, shall be purchased either from an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a federal or state association

(as defined by Section 5102 of the Financial Code) or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank."

The City Treasurer shall investigate institutions that wish to do business with the City in order to determine if they are adequately capitalized, make markets in securities appropriate to the City's needs. Specifically, in order to achieve these objectives:

The Treasurer shall establish a list of qualified securities dealers, and shall obtain a certification submitted by all financial institutions with which the City has an investment relationship on an annual basis. The certification shall state that the institution has reviewed the City's investment management plan and that it will:

- Exercise due diligence in monitoring the activities of its officers and employees engaged in transactions with the City.

- Ensure that all of its officers and employees offering investments to the City are trained in the precautions appropriate to public sector investments.

In order to be qualified for use by the City, a qualifying institution must have:

a) At least three years experience operating with California municipalities. In addition, individual traders or agents representing a dealer must have a minimum of one year experience operating with California municipalities;

b) An inventory of trading securities of at least $10 million.

SOCIAL AND ENVIRONMENTAL CONCERNS

In the event the objectives mandated by state law and set forth above are met and created equal, investments in corporate securities and depository institutions will be evaluated for social and environmental concerns. Investments are discouraged in entities that receive a significant portion of their revenues from the manufacture, processing, or exploration of fossil fuels.

SAFEKEEPING AND CUSTODY OF SECURITIES:

To protect against potential losses caused by the collapse of individual securities dealers, all securities owned by the City, except for investments with LAIF, Repurchase Agreements as authorized in this Policy shall be kept in safekeeping by a third party custodian acting as agent for the City under the terms of a custody agreement executed by the bank and by the City. These funds will be held in the City's name. All trades will be executed by delivery vs. payment (DVP). This ensures that securities are deposited to the third party safe keeper prior to release of the City's funds to the broker, for a purchase, and ensures that cash is deposited with the safe keeper prior to release of the City's security for a sale.

COMPETITIVE PURCHASE AND SALE OF ALLOWED SECURITIES:

Except for purchases in LAIF or with a Mutual Fund otherwise authorized in this Policy, any purchase or sale of individual securities shall be made after soliciting at least three quotes from authorized brokers, either verbally or in writing. The Treasurer shall make the purchase or sale from the broker that offers the best executable price for the security. In the case of a tie of two or more brokers, the Treasurer shall select by his/her choice. The Treasurer shall maintain documentation relating to investment quotes for six months.

ETHICS AND CONFLICTS OF INTEREST:

The City Treasurer and Deputy City Treasurers shall file a State Form 700 annually, wherein they must disclose all personal assets such as stocks, bonds, properties, business entities, etc., in which said officials may be involved and which could create a conflict of interest with the proper execution of their offices or impair their ability to make impartial decisions.

REPORTING:

The Treasurer shall present to the City Council a quarterly report within 45 days after the end of the quarter showing the types of investments, institutions of investment, dates of maturity, amounts of deposit, current market value for all securities, rates of interest, and other such data as may be required by the City Council.

INVESTMENT OVERSIGHT COMMITTEE:

The City shall establish an Investment Oversight Committee that shall meet at least quarterly. The committee shall consist of, at a minimum, the City Treasurer, the City Manager, and the Finance Director.

The purpose of the committee is to:

- Review the portfolio on a quarterly basis to ensure compliance with the City's Investment Policy and the requirements of the State of California.

- Make recommendations to Council to change the Investment Policy where appropriate.

- Meet as needed to review the investment portfolio as a result of changes in the marketplace or the economic position of any company or agency that affects the City's investments.

The City Treasurer will report on any recommendations and/or actions taken by the Investment Oversight Committee in his/her quarterly investment reports to the full City Council. The Investment Oversight Committee shall meet and report at least semi-annually with the Finance/Budget/Investment Committee of the City Council.

INTERNAL CONTROLS:

The Treasurer and the Finance Director are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control of the structure shall be designed to provide reasonable assurance that these objectives are met.

Management responsibility for the investment program is delegated to the elected City Treasurer who shall be responsible for all investment transactions. The Deputy City Treasurer(s), appointed by the City Treasurer, acts at the discretion and direction of the City Treasurer.

WIRE TRANSFER CONFIRMATIONS:

Due to the need to preserve segregation of duties and checks and balances, all non-recurring, outgoing wire transactions initiated by the City Treasurer or a Deputy Treasurer appointed by the City Treasurer shall be confirmed by the bank with a second person, either a Deputy Treasurer or an authorized person within the Finance Department, prior to the completion of that wire transfer. Recurring/repetitive wire transactions, such as with LAIF, or to meet regular debt service payments, may be exempted from a second confirmation requirement, provided that a list of recurring wire transfers is established with the bank and that both the City Treasurer and the Finance Director approve the list.

POLICY REVIEW:

This Investment Policy shall be reviewed at least annually to ensure its consistency with the overall objectives of safety of principal, liquidity, and yield. The Policy should also be relevant to current law, financial and economic trends, and should meet the needs of the City of South San Francisco.

Appendix A

GLOSSARY OF INVESTMENT TERMS

Agencies. Shorthand market terminology for any obligation issued by *a government-sponsored entity (GSE),* or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

> **FDIC.** The Federal Deposit Insurance Corporation provides insurance backed by the full faith and credit of the US government to certain bank deposits and debt obligations.
>
> **FFCB.** The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.
>
> **FHLB.** The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.
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> **FHLMC.** Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC also called "FreddieMac" issues discount notes, bonds and mortgage pass-through securities. Only discount notes and bonds are authorized by this policy.
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> **FNMA.** Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "FannieMae," issues discount notes, bonds and mortgage pass-through securities.
>
> **PEFCO.** The Private Export Funding Corporation assists exporters.
>
> **TVA.** The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio and Mississippi River valleys. TVA currently issues discount notes and bonds.

Asked. The price at which a seller offers to sell a security.

Asset Backed Securities (ABS). Asset Backed Securities are pass-through instruments collateralized by installment loans, leases, revolving lines of credit or other consumer finance receivables. Securitizations are structured to separate the credit of the ABS issuer from the assets being securitized.

Banker's acceptance. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

Benchmark. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

Bid. The price at which a buyer offers to buy a security.

Broker. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

Callable. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

Certificate of Deposit (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

Collateral. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

Commercial paper. The short-term unsecured debt of corporations.

Cost yield. The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

Coupon. The rate of return at which interest is paid on a bond.

Credit risk. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

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

Dealer. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

Debenture. A bond secured only by the general credit of the issuer.

Delivery vs. payment (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

Derivative. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate or index. Derivatives are prohibited under this Investment Policy.

Discount. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as **discount securities**. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

Diversification. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

Duration. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See <u>modified duration</u>).

Federal funds rate. The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

Federal Open Market Committee: A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

Leverage. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

Liquidity: The speed and ease with which an asset can be converted to cash.

Make Whole Call. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

Margin: The difference between the market value of a security and the loan a broker makes using that security as collateral.

Market risk. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

Market value. The price at which a security can be traded.

Marking to market. The process of posting current market values for securities in a portfolio.

Maturity. The final date upon which the principal of a security becomes due and payable.

Medium term notes. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

Modified duration. The percent change in price for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio’s or security’s exposure to market risk.

Money market. The market in which short term debt instruments (Tbills, discount notes, commercial paper and banker’s acceptances) are issued and traded.

Mortgage pass-through securities. A securitized participation in the interest and principal cashflows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security. These securities are prohibited under this Policy.

Mutual fund. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds and money market instruments, as set forth in the individual fund's prospectus.

Nationally Recognized Statistical Ratings Organization. The formal term to describe credit rating agencies that provide credit ratings that are used by the U.S. government in several regulatory areas. Ratings provided by Nationally Recognized Statistical Ratings Organizations (NRSRO) are used frequently by investors and are used as benchmarks by federal and state agencies.

Premium. The difference between the par value of a bond and the cost of the bond, when the cost is above par.

Primary dealer. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

Prudent person (man) rule. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed 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 like character and with like aims to accomplish similar purposes."

Realized yield. The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

Regional dealer. A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

Repurchase agreement (Repo). Short term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a **reverse repurchase agreement**.

Safekeeping. A service whereby securities are held by a bank in the customer's name.

Supranational. A supranational entity is formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds.

Total rate of return. A measure of a portfolio' performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains and losses in the portfolio.

U.S. Treasury obligations. 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 US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

Treasury bills. All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills (Tbills). The Treasury currently issues three- and six-month Tbills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

Treasury notes. All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

Treasury bonds. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

Volatility. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

Yield to Maturity. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.