## *CITY OF CINCINNATI, OHIO*
## *TREASURY INVESTMENT POLICY*

### A. POLICY

The policy of the City of Cincinnati (City) is to invest public funds in a manner which emphasizes maximum security of principal while meeting the daily cash flow needs of the City. Within these two parameters, the goal is to earn the highest investment return possible.

### B. SCOPE

This investment policy applies to all funds that are pooled and deposited into the General Bank Depository Account and other accounts authorized by the City Treasurer. The investment pool will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation established by the Cincinnati Municipal Code Section 301-15. All such funds are reported in the City's Annual Comprehensive Financial Report and include the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Enterprise Funds, Internal Service Funds, and Agency Funds.

Excluded from this policy are the City of Cincinnati Retirement System accounts and other restricted funds that are maintained in escrow accounts, trustee accounts, and accounts controlled by Boards and Commissions.

### C. PRUDENCE

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

The standard of prudence to be used by Investment Officials (those engaged in investment transactions, the Finance Director, City Treasurer, and the City Investment Committee members) shall be the "prudent person" standard and shall be applied in the context of managing the overall portfolio. Investment officials acting in accordance with written procedures, 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, the liquidity and sale of the securities are carried out in accordance with the terms of this policy, and appropriate action is taken to control adverse developments.

Nothing in this policy shall be construed to relieve any investment official from the legal requirements established by the Ohio Revised Code (O.R.C. 135) or the Cincinnati Municipal Code (C.M.C. 301).

### D. OBJECTIVES

The primary objectives, in priority order, of the City's investment activities are as follows:

**Safety**
Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the entire portfolio. The objective is to mitigate credit risk and interest rate risk.

a. **Credit Risk -** The City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
   - Limiting investments to the safest types of securities;
   - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business;
   - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

b. **Interest Rate Risk** - The City will minimize interest risk, the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
   - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity;
   - Investing funds needed to meet operating expenses and capital project needs primarily in shorter-term securities, money market mutual funds, or similar investment pools.

**Liquidity**
The City's investment portfolio will remain sufficiently liquid to meet all operating requirements, which might be reasonably anticipated. The City will primarily meet disbursement requirements using current receipts. Furthermore, because all possible cash demands cannot be anticipated, the portfolio should consist primarily of securities with active secondary or resale markets. A portion of the portfolio may be placed in money market mutual funds or the STAR Ohio investment pool that offer same-day liquidity for short-term funds.

**Return on Investment**
The investment portfolio shall be designed to achieve the performance standard rate of return (see Section N) throughout budgetary and economic cycles, taking into account the investment risk constraint and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities may be sold prior to maturity for the following reasons:

- A security with declining credit to minimize loss of principal;
- To improve the quality, yield, or target duration in the portfolio;
- Meet liquidity needs of the portfolio.

## E. DELEGATION OF AUTHORITY

As a home-rule City, authority to manage the City's investment program is derived from Section 301-11(A), C.M.C. The Finance Director has created an Investment Committee to provide advice concerning the development and implementation of this policy and to select authorized security broker/dealers. The Finance Director has delegated the management responsibility of the investment program and the responsibility for establishing a system of controls to regulate the activities of subordinate officials to the City Treasurer.

The City Treasurer is authorized to engage in investment transactions. No other person, other than the Finance Director or Assistant Finance Director, may engage in an investment transaction unless recommended in writing by the City Treasurer and approved in writing by the Finance Director.

The Finance Director has created the City Investment Committee that will provide guidance to the City Treasurer and periodically review the City's investment program and strategy. The members of this Investment Committee include the Finance Director, Assistant Finance Director, Accounts and Audits Finance Manager, and any other individual(s) as designated by the Finance Director. The Assistant Finance Director will chair the Committee, and the City Treasurer will staff the committee.

As authorized by Ohio Revised Code (Chapter 135.14(N)), the City may utilize the services of a professional investment management firm(s) to manage a portion of the investment portfolio. These investment management firm(s) will be selected through a Request for Proposals (RFP) process, and their contract terms shall not exceed five years. The Investment Committee shall have the discretion to hire or terminate investment management firms.

Investments purchased by these firms for the City investment portfolio must comply with Ohio Revised Code Section 135, Cincinnati Municipal Code Chapter 301, as well as the requirements of this Investment Policy Statement. This Investment Policy Statement will be included as an addendum to all investment firm contracts. These investment management firms shall have the authority to purchase and sell securities on behalf of the City without obtaining prior approval of the City Treasurer.

All securities purchased for the City by these investment management firms will be held in City of Cincinnati custodial accounts. The custodian shall provide the City Treasurer with a monthly report that must include, but not be limited to, a list of all securities held in the portfolio, all transactions which occurred during the month, and the market value of each security.

These investment firms will be required to provide investment reports, performance reports and trade reports to the City Treasurer on a weekly basis.

## F. ETHICS AND CONFLICT OF INTEREST

Investment Officials shall refrain from personal business activity that could conflict with proper execution and management of the policy and the investment program, or which could impair their ability to make impartial investment decisions. Investment officials must provide a public disclosure document by February 1 each year or when material interest in financial institutions or personal investment positions require it. The public disclosure document must contain any material interests in financial institutions with which they conduct business and shall further disclose any personal or financial investment positions that could be related to the performance of the investment portfolio. Furthermore, Investment Officials must refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution with whom business is conducted on behalf of the City.

## G. AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS

### 1. DEPOSITORIES

Each of the following criteria must be met in order for a financial institution to be considered an eligible depository:

A) The financial institution must be approved by the Committee on Reinvestment as specified in Section 301-3, C.M.C.;

B) The financial institution must meet the collateral requirements of this investment policy;

C) In accordance with Section 135.03, Ohio Revised Code, the financial institution must also be, among other things:

   1.) A national bank located within the State of Ohio, or

2.) A bank subject to inspection by the Superintendent of Financial Institutions, or

3.) A domestic savings and loan association organized under the laws of this state and whose home office is located within the State of Ohio.

Requests for Proposals will be forwarded to eligible depositories in order to evaluate the best provider of banking services. The bank contracts will be evaluated on both a cost basis as well as the financial institution's ability to provide excellent banking services to the City of Cincinnati. In accordance with Section 301-5 C.M.C., the bank contracts for depository services will be awarded for periods not exceeding five years.

**2. AUTHORIZED SECURITY BROKERS AND DEALERS**

The Finance Director authorizes the Investment Committee to designate security broker/dealers for the purpose of purchasing and selling but not safekeeping or holding securities on behalf of the City. Only primary or regional broker/dealers that qualify under Securities and Exchange Commission Rule 15C3-1 shall be eligible to purchase and sell securities on behalf of the City. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of $10,000,000 and at least five years of operation). These may include primary broker/dealers or regional broker/dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). Furthermore, the following criteria shall apply to broker/dealers:

A) Must be licensed and registered with the State of Ohio, Commerce Department,
B) Must be a member of the Financial Industry Regulatory Authority (FINRA), or
C) Must be a bank or savings and loan association regulated by the Superintendent of Financial Institutions, or
D) Must be an institution regulated by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or Board of Governors of the Federal Reserve System.

These broker/dealers will be selected through a Request for Qualifications (RFQ) process, and the term of list shall not exceed five years. The Investment Committee shall have the discretion to add or eliminate broker/dealers from the eligible broker/dealer list.

All broker/dealers will be provided with a copy of this Investment Policy Statement. As required by Section 135.14(O)(1) of the O.R.C., these broker/dealers will be required to submit a signed copy of this document to the City Treasurer in order to acknowledge the receipt and comprehension of the Investment Policy Statement.

In addition to the criteria mentioned above, an authorized broker/dealer through which securities will be purchased must provide to the City Treasurer, a completed and certified "Broker/Dealer Questionnaire and Certification" and audited financial statements.

From time to time, the Finance Director may choose to invest in instruments offered by economically disadvantaged financial institutions and community financial institutions. In such situations, a waiver to the criteria in this section may be granted. All terms and relationships will be fully disclosed prior to purchase and will be consistent with state and local law.

The City Treasurer will maintain the list of broker/dealers authorized by the Investment Committee to provide investment services. The Investment Committee will review the list at least annually to determine which broker/dealers shall be added to or deleted from the list. Whenever possible, investments will be purchased through a competitive bidding process using the broker/dealers on the approved list.

Investment management firms that manage an investment portfolio on behalf of the City are authorized to select the broker/dealers that will execute the trades on behalf of the City of Cincinnati. This authority is granted with the understanding that the investment managers will utilize the broker/dealers that are able to provide best execution when trading securities on behalf of the City of Cincinnati adhering to the criteria set above.

## H. ELIGIBLE INVESTMENTS

In accordance with, and subject to, Section 301-11 of the C.M.C. and 135.14 of the O.R.C., monies in the Treasury of the City of Cincinnati may be invested in:

1) United States Treasury Bills, Notes, Bonds, or any other obligation guaranteed as to principal and interest by the United States.

   Nothing in this classification of eligible obligations set forth in this section or in the classification of eligible obligations set forth in divisions (2) to (7) of this section shall be construed to authorize any investment in stripped principal or interest obligations of such eligible obligations.

2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, or government sponsored enterprise. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities. These include, but are not limited to:

   -Federal National Mortgage Association
   -Federal Home Loan Bank
   -Federal Farm Credit Bank
   -Federal Home Loan Mortgage Corporation
   -Government National Mortgage Association

3) Time certificates of deposit of eligible institutions as provided in Section 135.08 of the O.R.C., the payment of the principal and accrued interest thereon for which eligible securities are pledged and deposited with the City Treasurer or qualified trustee.

   Eligible securities and qualified trustee for the purposes of this section shall have the same meaning as eligible securities and qualified trustee for the purpose of Section 135.18 of the O.R.C.

   Up to $25,000,000 of time certificates of deposit may be invested as linked deposits at less than market rates of return as negotiated by the Director of Finance or his designee. This is authorized by Section 301-11(3) of the Cincinnati Municipal Code.

4) No-load money market mutual funds (consisting exclusively of obligations described in (1) of this section) or repurchase agreements secured by such obligations (consisting exclusively of obligations described in (1) of this section) provided that investments in these securities are made only through eligible institutions mentioned in Section 135.03 of the O.R.C.

5) The Ohio subdivision's fund (STAR Ohio) as provided in Section 135.45 of the O.R.C. Standard and Poor's has assigned its highest rating (AAA) to the Star Ohio investment pool, and thus, it is considered to have superior capacity to maintain principal and limit exposure to loss. In addition to the eligible investments in this section, Star Ohio may invest in accordance with its policy, which includes commercial paper and banker's acceptances.

6) The State of Ohio endorsed cash management programs, including but not limited to GIDP.

7) Repurchase Agreements in accordance with Section 135.14(E), O.R.C. The City Treasurer and the broker/dealer engaging in any repurchase agreement investment transactions with the City must sign a master repurchase agreement.

8) Municipal bonds or other obligations of the State of Ohio, or any political subdivision of the State of Ohio and any other state or political subdivision with at least a AA rating or better at the time of purchase. In the event a security is rated by three rating agencies, the middle rating will apply. If the security is rated by two rating agencies, the lowest rating will apply. In the event a security falls below an AA rating subsequent to purchase, the investment manager will notify the City Treasurer within 30 days of the downgrade. The manager may continue to hold the security if directed by the City. The Treasurer cannot be the sole purchaser of the bonds or other obligations at original issuance. Any investment must mature within five years from the date of settlement unless the investment is specifically matched to a specific obligation or debt of this city.

   No investments in municipal bonds can be made until the City Treasurer has satisfied the additional training requirements mandated by the Ohio State Treasurer's Office.

9) Commercial Paper that meets the requirements of state law and that has assets exceeding $500 million, to which notes all the following apply:

   a) The notes are rated at the time of purchase in the highest classification established by at least two nationally recognized standard rating services.
   b) The aggregate value of the notes does not exceed 10 percent of the aggregate value of the outstanding commercial paper of the issuing corporation.
   c) The notes mature not later than 270 days after purchase

   Nothing in this classification of eligible investments set forth in Section 301-11 C.M.C. shall be construed to authorize any investment in a derivative pursuant to Section 135.14 (C) of the O.R.C.

## I. COLLATERAL

Certificate of deposit investments must be backed by either a collateral or surety bond with an aggregate market value of at least one hundred two percent (102%) of the City's deposits and investments including accrued interest. Collateral must be pledged in the name of the City of Cincinnati to the City's joint custody account at the Federal Reserve Bank, Cleveland, Ohio, or can be pledged at a different third-party depository within the State of Ohio upon written agreement between the pledging institution, the third party depository, and the City Treasurer. Collateral will be released upon the written authority of the City Treasurer.

Repurchase agreements must be backed by collateral as defined in the master repurchase agreement. The City will accept delivery of collateral at its custodian bank or bank as approved by the Finance Director. Collateral will be released only upon the authority of the City Treasurer.

## J. SAFEKEEPING AND CUSTODY

All security transactions, entered by the City, shall be conducted on a delivery versus payment (DVP) basis. The DVP basis shall mean the broker/dealer will not be paid until the securities purchased are delivered to the City or the City's designated third-party safekeeping account.

The City Treasurer is responsible for the custody and safekeeping of all documents evidencing a deposit or investment per section 134.14(K), O.R.C. Investment in U.S. Treasury securities shall be held in the City's third-party safekeeping accounts at the City's custodian bank. All other investment securities shall be held in the custody of the City Treasurer. The Finance Director must approve any exceptions to this safekeeping and custody policy in writing.

All security third party safekeeping shall be performed by the City's custodian bank.

## K. DIVERSIFICATION

Chapter 301-CMC does not set limits on the amount of funds which may be held in the eligible investment securities. However, the following guidelines are established in order to avoid overconcentration in securities from a specific issuer or sector

| Type | Not to exceed |
|---|---|
| • U.S. Government Obligations | 100% |
| • U.S. Federal Agency Securities | 100% |
| • Non-negotiable Certificates of Deposits | 60% |
| • Municipal Bonds/Notes | 20% |
| • Repurchase Agreements | 25% |
| • STAR Ohio (State of Ohio Investment Pool) | 75% |
| • Commercial Paper | 40% |
| • Overnight excess cash deposit | 100% |

## L. MATURITIES

Any investment must mature within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of the City.

The City's investments will generally follow a laddered strategy, which distributes assets not needed for anticipated disbursements evenly over a five-year period as determined by the Investment Committee.

## M. INTERNAL CONTROLS

The City Treasurer, in consultation with the Division of Accounts & Audits, is responsible for establishing an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. The Investment Committee shall approve the internal control structure. The internal control structure shall be designed to provide reasonable assurance that assets are protected, recognizing 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.

The City will hire an external certified public accounting firm to conduct an independent audit on an annual basis. The annual audit requires a review and test of the internal controls established by investment policies and procedures.

The internal controls address control of collusion, separation of transaction authority from accounting and recordkeeping, custodial safekeeping, avoidance of physical delivery securities, clear delegation of authority to subordinate staff members, written confirmation of transactions for investments and wire transfers, and development of wire transfer agreements with custodian banks and lead banks for transactions.

## N. PERFORMANCE STANDARDS

The City has implemented a multidisciplined performance standard.

For funds managed internally by the City's staff the benchmark to be used will be the 24-month trailing average yield of the 2-year Constant Maturity Treasury (CMT).

In the event an investment management firm is selected to work with the City, the benchmark to be used will be the 1–5-year Treasury Index.

## O. REPORTING

The Treasurer will report each investment to the Finance Manager of Accounts and Audits by the same business day. The information provided will include the type and issuer of the investment, date of purchase and maturity, the principal amount, the interest rate, and the amount paid for the investment.

The custodian bank shall generate a monthly report that provides the current market valuation of each security owned by the City. CUSIP numbers for each security are to be included in the report.

The City Treasurer will meet with the Finance Director and the Investment Committee on a quarterly basis to discuss investment strategies. Information provided to the Investment Committee will include a review of all securities purchased in the previous quarter, data on all securities held in the City portfolio, current yield curve environment, overall portfolio allocation, and quarterly reports provided by investment management firms.

## P. TRAINING AND EDUCATION

The City Treasurer must maintain sufficient education and training as deemed necessary by the Finance Director. On an annual basis, the City Treasurer and Investment Officials must complete the continuing education programs prescribed by the State Treasurer in Section 135.22, O.R.C.

No investment shall be made under division (B)(4) of this section unless the treasurer or governing board has completed additional training for making the investments authorized by division (B)(4) of this section. The type and amount of additional training shall be approved by the treasurer of state and may be conducted by or provided under the supervision of the treasurer of state.

## Q. REVIEW

This policy shall be reviewed at least annually but revisions may be made as frequently as deemed necessary. The Investment Committee and the Finance Director must approve any changes to the policy before submission to City Council for approval.

As required by Ohio Revised Code Chapter 135.14, this Investment Policy Statement must be filed with the Auditor of State after it has been approved by City Council.

## R. INVESTMENT POLICY ADOPTION

This investment policy and subsequent revisions shall be presented to and approved by City Council.

## INVESTMENT TERM GLOSSARY

**Accrued Interest**
The accumulated interest due on a bond as of the last Interest payment made by the issuer.

**Agency**
Debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of a federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

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

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

**Basis Point**
A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

**Bid**
The indicated price at which a buyer is willing to purchase a security or commodity.

**Book Value**
The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

**Callable Bond**
A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

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

**Call Risk**
The risk to a bondholder that a bond may be redeemed prior to maturity.

**Cash Sale/Purchase**
A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

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

**Commercial Paper**
An unsecured short-term promissory note issued by Corporations, with maturities ranging from 2 to 270 days.

**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.

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

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

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

**Current Yield (Current Return)**
A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

**Delivery versus Payment (DVP)**
A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

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

**Discount**
The amount by which the par value of a security exceeds the price paid for the security.

**Diversification**
A process of investing assets among a range of security types by sector, maturity, and quality rating.

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

**Fair Value**
The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**Federal Funds (Fed Funds)**

Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

**Federal Funds Rate**
Interest rate charged by one institution lending federal funds to the other.

**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, and Bonds."

**Interest Rate** - See "Coupon Rate."

**Interest Rate Risk**
The risk associated with declines or rises in interest rates, which cause an investment in a fixed-income security to increase or decrease in value.

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

1. Control of collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. Separation of transaction authority from accounting and record keeping. By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. 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.
4. 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.
5. 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.
6. Written confirmation of transactions for investments and wire transfers. Due to the potential or 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.
7. 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.

**Inverted Yield Curve**

A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

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

**Investment Officials**
The Finance Director, the City Treasurer, those engaged in investment transactions, and the Investment Committee members.

**Investment Policy**
A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

**Investment-grade Obligations**
An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

**Laddered Investments**
The laddered investment strategy distributes assets not needed for anticipated disbursements and will be distributed evenly over a three year period.

**Liquidity**
An asset that can be converted easily and quickly into cash.

**Local Government Investment Pool (LGIP)**
An investment by local governments in which their money is pooled as a method for managing local funds.

**Mark-to-market**
The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

**Market Risk**
The risk that the value of a security will rise or decline as a result of changes in market conditions.

**Market Value**
Current market price of a security.

**Maturity**
The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity."

**Money Market Mutual Fund**
Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

**Mutual Fund**
An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sells SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

**Mutual Fund Statistical Services**
Companies that track and rate mutual funds, e.g., IBC/Donoghue, Lipper Analytical Services, and Morningstar.

**National Association of Securities Dealers (NASD)**
A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

**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 which includes securities, cash, and any accrued earnings, subtracting this 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)

**No Load Fund**
A mutual fund which does not levy a sales charge on the purchase of its shares.

**Nominal Yield**
The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

**Offer**
An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

**Par**
Face value or principal value of a bond, typically $1,000 per bond.

**Passive Investment Strategy**
The practice of holding investments to maturity rather than actively trading the investment portfolio

**Positive Yield Curve**
A chart formation that illustrates short-term securities have lower yields than long-term securities.

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

**Prime Rate**
A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

**Principal**
The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

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

**Prudent Person Rule**
An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

**Regular Way Delivery**
Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.

**Reinvestment Risk**
The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

**Repurchase Agreement (repo or RP)**
An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

**Reverse Repurchase Agreement (Reverse Repo)**
An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

**Rule 2a-7 of the Investment Company Ac**t
Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13- month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

**Safekeeping**
Holding of assets (e.g., securities) by a financial institution.

**Serial Bond**
A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

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

**Swap** - Trading one asset for another.

**Term Bond**

Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

**Total Return**
The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return

**Treasury Bills**
Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

**Treasury Notes**
Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from $1,000 to $1 million or more.

**Treasury Bonds**
Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of $1,000. Currently, the longest outstanding maturity for such securities is 30 years.

**Uniform Net Capital Rule**
SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

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

"**Volatility Risk" Rating**
A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns ("aaa" by S&P; "V-1" by Fitch) to those that are highly sensitive with currently identifiable market volatility
risk ("ccc-" by S&P, "V-10" by Fitch).

**Weighted Average Maturity (WAM)**
The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

**When Issued (WI)**
A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

**Yield**
The current rate of return on an investment security generally expressed as a percentage of the security's current price.

**Yield-to-call (YTC)**
The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

**Yield Curve**
A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

**Yield-to-maturity**
The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

**Zero-coupon Securities**
Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.