



City of Rockville, Maryland

Statement of Investment Policy

Revised ~~May 15, 2006~~ October 18, 2010 December 13, 2010 |

CITY OF ROCKVILLE, MARYLAND INVESTMENT POLICY

I. POLICY

It is the policy of the City of Rockville (“the City”) to invest funds not required for immediate expenditure (operating funds), in a manner which will conform to all State of Maryland statutes governing the investment of public funds. The Investment Officer or an appropriate designee is authorized to invest such funds until the time they will be needed in such investments as are authorized in the guidelines delineated below. This Investment Policy represents the financial boundaries within which its cash and investment management process will operate. This Policy’s four primary goals are as follows:

- 1) To assure compliance with federal, state and local laws governing the investment of public monies under the control of the Investment Officer.
- 2) To provide sufficient liquidity to meet normal operating and unexpected expenditures.
- 3) To protect the principal monies entrusted to the City.
- 4) To generate the maximum amount of investment income within the parameters of prudent risk management as defined in this Investment Policy.

II. SCOPE

This investment policy applies to all monies under the oversight of the City of Rockville that are accounted for in the following funds:

- 1) General Fund
- 2) Special Revenue Funds
- 3) Debt Service Funds
- 4) Capital Project Funds
- 5) Enterprise Funds

These funds are accounted for in the City’s Comprehensive Annual Financial Report (CAFR).

Assets held in trust and agency funds are exempt from the provisions of this policy. These assets consist of funds in the pension plan and deferred compensation plans. Pension plan assets are invested in compliance with State statutes and on the basis of direction provided by the City’s Retirement Board, as well as individual employee decisions about defined contribution amounts. Assets held in these plans are held in trust for the participants and are not assets of the City. The City does not have authority over the investments held in these trusts. The funds in the deferred compensation plans are invested in compliance with State statutes and individual employee decisions.

III. PRUDENCE

The standard of performance to be respected by the Investment Officer or designee with respect to investment of City funds shall be the “prudent person” rule which states, “investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.” The prudent person rule shall be applied in the context of managing the overall portfolio.

The Investment Officer acting in accordance with written procedures and the 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 are reported in a timely fashion and appropriate action is taken to control adverse developments.

IV. INVESTMENT OBJECTIVES

The City’s priorities, for investment and managing of public funds, are as follows:

- 1) Safety of principal: Investments of the City shall always be undertaken with a view toward ensuring that there will be preservation of the Principal.
- 2) Liquidity: The maturity mix of the investment portfolio will be continuously monitored by the Investment Officer with a view toward reasonable estimation of the timing of the City’s expenditure needs, so that sufficient liquidity is maintained to meet operating requirements.
- 3) Return on investments: The City’s investment program will be formulated with the objective of attaining a favorable rate of return throughout budgetary and economic cycles, taking into account the City’s investment risk constraints established elsewhere in this policy.

V. DELEGATION OF AUTHORITY

The Mayor and Council of Rockville recognize that their authority to invest the public funds of the City derives from Section 6-222 of the State of Maryland’s Finance and Procurement Article, as well as Article 95, Section 22-22-N ~~and 22-O~~ of the Annotated Code of Maryland. Authority to invest City funds in compliance with the provisions of these State statutes is delegated to the Investment Officer.

The Investment Officer means ~~Director of Finance~~ the Chief Financial Officer, Treasurer, or other official of the City of Rockville who is responsible for the investment of public funds. The Investment Officer shall be responsible for all investment transactions undertaken by the City and shall have sole authority to buy and sell securities on behalf of the City. The Investment Officer is a fiduciary subject to the prudent investor standard.

VI. DELINEATION OF EXPRESS STATE LAW REQUIREMENTS TO WHICH THE CITY HEREBY RESOLVES TO ADHERE

- 1) The City of Rockville will invest only in those types of securities described in State Finance and Procurement Article 6-222(a) or Article 95, Section 22-22-N and 22-O of the Annotated Code of Maryland.
- 2) All investments made by the City will comply with the standards of State Finance and Procurement Article 6-222(d).
- 3) The City is prohibited from borrowing money for the sole purpose of investment.
- 4) The City's Investment Officer is prohibited from investing public funds in a manner inconsistent with this adopted policy.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Investment Officer shall maintain an Approved list (Attachment 1) of qualified financial institutions that the Mayor and Council have authorized to provide financial or investment services to the City.

Only primary government securities dealers ("primary dealers") that regularly report to the Federal Reserve Bank of New York shall be eligible to apply for inclusion on the Approved List.

The Mayor and Council may, at their discretion, accept, review, and approve applications from regional brokers that meet the following criteria:

- 1) have been in business for more than five years;
- 2) have a net capital position in excess of \$10 million;
- 3) are qualified under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).
- 4) are headquartered or have a branch office in the State of Maryland;
- 5) carry adequate insurance coverage including liability, errors and omissions, and workers' compensation (if applicable);
- 6) are a Member of National Association of Securities Dealers (NASD).

Under certain circumstances, the Mayor and Council may approve a regional broker/dealer even if they do not meet all six requirements.

The number of primary dealers and regional brokers on the Approved List shall not exceed a combined total of eight at any single time. The City shall accept and review new broker-dealer applications only when there is an immediate need to fill a vacancy on the Approved List. In all cases, the City shall only accept applications from and transact business with the institutional securities sales departments of primary dealers and regional brokers.

The Investment Officer shall evaluate the qualifications of all qualified firms, and choose ~~the~~ (at least) the three most qualified firms based on the published evaluation criteria in the City's Request for Information (RFI). The Mayor and Council shall approve the initial authorization of any qualified firm. Renewal of authorization is at the discretion of the Investment Officer, provided the minimum requirements stated above continue to be met.

The Investment Officer shall conduct an annual review, of the financial condition and the registrations of all approved broker-dealers in order to determine whether they should remain on the Approved List. In addition to other requirements, the City shall give all approved broker-dealers a copy of the City's current Investment Policy and a certification form.

The completion and submission of the certification form by an approved broker-dealer shall constitute proof that it has received the City's Investment Policy, read it, and intends to comply with it. The Investment Officer shall keep a current audited annual financial statement on file for each approved broker-dealer with which the City does business.

VIII. AUTHORIZED PUBLIC DEPOSITORIES

The Investment Officer shall maintain an Approved List (Attached) of all commercial banks that the City Council has authorized as public depositories of City monies.

The City shall only deposit public monies in financial institutions that have: (1) at least \$5 billion in total assets; (2) a core capital-to-total assets ratio of at least five percent; (3) favorable statistical ratings from a nationally recognized rating service, as determined by the Investment Officer; (4) a federal or a state charter; and (5) a branch office within Montgomery County.

Under no circumstances shall the City's deposits in a financial institution exceed the total shareholder's equity of that institution.

The Investment Officer shall conduct a quarterly review of the financial condition of all approved public depositories in order to determine whether they should remain on the Approved List.

IX BOND PROCEEDS

The Investment Officer shall segregate the gross proceeds of tax-exempt bonds from the City's general pool and shall keep them in a separate pool. The proceeds shall be invested pursuant to the instructions in the respective bond indentures of trust. If the bond indenture authorizes investments that conflict with this Investment Policy, then such investments shall be made only with the City Council's prior approval. All securities shall be held in third-party safekeeping with the bond trustee ("Trustee") where applicable and all deliver-versus-payment (DVP) rules shall apply. The Trustee shall be represented on the Approved List (Attached).

Investment Officers shall use competitive offerings, whenever practical, for all investment transactions that involve the gross proceeds of tax-exempt bonds. The City shall obtain a minimum of three competitive offers. Any exceptions to this policy shall be documented and shall be reported to the City Council.

Bond Proceeds may be invested in bonds, notes, or other obligations of investment grade in the highest quality letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the United States Securities and exchange commission issued by and on behalf of this or any other state or any agency, or in any fund or trust that invests only in securities of the type described in this policy.

The City is required under the U.S. Tax Reform Act of 1986 to perform annual arbitrage calculations and to rebate excess earnings to the United States Treasury from the investment of the gross proceeds of tax-exempt bonds that were sold after the effective date of that law. The City may contract with qualified

outside financial consultants to provide the necessary technical expertise that is required to comply with this law.

X. AUTHORIZED INVESTMENT INSTRUMENTS

The Investment Officer may exercise discretion in investing City funds among the following instruments within the guidelines provided:

- 1) Any obligation for which the United States has pledged its full faith and credit for the payment of interest and principal;
- 2) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of congress;
- 3) Any Repurchase agreement collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies, or instrumentalities, provided the collateral is held by a custodian, other than the seller, designated by the City;
- 4) Any Bankers' Acceptance guaranteed by a financial institution with a short term debt rating in the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by either the United States Securities and Exchange Commission or the Treasurer;
- 5) Commercial Paper that has received the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the United States Securities and Exchange Commission, provided that such commercial paper may not exceed 5% of the total investments made by the Investment Officer under this subsection;
- 6) Any Money Market Mutual Fund that contain only securities of the organizations listed in items 1,2, and 3 above; are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, U.S.C. § 80(A), as amended and operated in accordance with rule 241 of the Investment Company Act of 1940, 17 C.F.R. § 270-2A-7, as amended, and that has received the highest rating from at least one nationally recognized statistical rating organization as designated by the United States Securities and Exchange Commission;
- 7) Any investment portfolio created under the Maryland Local Government Investment Pool defined under Article 95 § 22G of the Code that is administered by the State Treasurer.
- 8) In addition to the investment instruments listed above, the Investment Officer may also deposit unexpended or surplus funds in any federally insured bank or savings and loan institution that is authorized under Section VIII of this Policy, to be invested in one or more certificates of deposit. Each certificate of deposit shall not exceed the applicable Federal Deposit Insurance Corporation maximum insurance coverage limit.

XI. DIVERSIFICATION

The City will diversify its portfolio by investment type and issuer. The portfolio shall be diversified to ensure reduction of overall portfolio risk. The portfolio will be limited to the following:

- 1) U.S. Obligations backed by full faith and credit - 100%

- 2) Federal Agency Obligations - 100% total, no more than 35% per Federal Agency issuer
- 3) Repurchase Agreements - 35% total
- 4) Bankers' Acceptance - 35% total
- 5) Commercial Paper (highest rating by at least one NRSRO) - 35% total, no more than 5% per issuer
- 6) Money Market Mutual Fund (highest rating by at least one NRSRO) - 100%
- 7) Maryland LGIP - 100%

XII. MAXIMUM MATURITIES

The maximum allowable maturity horizon for any purchased security shall be two years from the date of purchase. To the extent possible, the City will attempt to match investment maturities with anticipated cash flow requirements. The Mayor and Council may approve longer maturities for the investment of bond reserve, bond escrow, and other funds if the maturities of such investments are expected to coincide with the expected use of the funds.

XIII. ETHICS AND CONFLICTS OF INTEREST

~~The Mayor and Council, Investment~~ Officers, and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business with this jurisdiction, and they shall further disclose any large personal financial investment positions that could be related to the performance of the City's portfolio.

XIV. INTERNAL CONTROLS

The ~~Director of Finance~~ Chief Financial Officer shall be responsible for establishing a system of internal controls designed to prevent losses of public funds due to fraud, employee error, misrepresentation by third parties, conflict of interests, or imprudent actions by City employees. Accordingly the ~~Director of Finance~~ Chief Financial Officer shall establish written procedures for the operation of the City's investment program that are consistent with the provisions of this Investment Policy.

Internal controls deemed most important shall include: avoidance of collusion; separation of duties and administrative controls; separating transaction authority from accounting and record keeping; custodial safekeeping; clear delegation of authority; management approval and review of investment transactions; specific limitations regarding securities losses and remedial action; written confirmation of telephone transactions; documentation of investment transactions and strategies; and monitoring of results.

Review of these controls shall be conducted as part of the annual City audit handled by an independent firm of auditors.

XV. COLLATERALIZATION

- 1) Collateral is required on three types of investments: Certificates of deposits, time deposits, and repurchase agreements. In order to mitigate market changes and provide additional level of security, the collateralization level will be at least 102% of market value of principal and accrued interest.
- 2) Collateral will always be held by a third party with whom the City has a current custodial

agreement.

- 3) Acceptable collateral is that which is specified under Section 6-202 of Title 6 of the State Finance Procurement Article of the Annotated Code of Maryland.

XVI. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreement, entered into by the City shall be conducted on ~~delivery-versus-payment (DVP)~~ basis. Securities will be held by a third party Custodian approved by the City Council. The City shall require Broker Trade Confirmations for all trades. All securities held by the custodian shall be in the City of Rockville's name, and shall be evidenced by safekeeping receipts. All repurchase agreements will be governed by a Master Repurchase agreement. Broker-dealers shall send a monthly activity statement to the City showing all transactions entered into the period. No City securities or cash will be held by any broker-dealer.

XVII. COMPETITIVE PROCUREMENT

All financial institutions earning fees for assisting the City in choosing or executing investment transactions shall be selected on the basis of a competitive procurement process consistent with the Purchasing Section of the City Code.

XVIII. PERFORMANCE STANDARDS

The City's investment portfolio shall be passively managed with securities being held to maturity. The general benchmark to be used by the Investment Officer to determine whether market yields are being achieved shall be the three-month Treasury bill rate.

XIX. REPORTING REQUIREMENTS

Cash and Investment reports should be submitted ~~monthly—at least quarterly~~ to the Mayor and Council for information purposes. This report should include information such as type of investments held, the issuers, maturity dates, par values and market values of each component of the portfolio. The report should contain certification that all investment transactions have been made in accordance with the Investment Policy and that the City has sufficient liquidity to meet its expenditure obligations for the next six months. The Investment Officer shall maintain a complete record of all investment transactions.

XX. ADOPTION OF INVESTMENT POLICY

The ~~Director of Finance~~ **Chief Financial Officer** shall submit the investment policy to the Mayor and Council ~~annually periodically at least every two years~~ for their review and adoption. This will allow the Policy to remain current with legislative changes as well as to reflect Best Management Practices in Municipal Finance. It is recommended that the City's Policy be submitted periodically to the Association of Public Treasurers of the United States & Canada for certification as part of their *Investment Policy Certification Program*.

XXI. GLOSSARY OF TERMS

Attached hereto is a glossary defining some technical cash and investment terms to better facilitate an understanding of the investment policy.

ATTACHMENT 1
The City of Rockville Approved List

The City of Rockville has authorized the following security broker-dealers, public depositories, and other financial institutions to provide financial services to the City.

UNITED STATES GOVERNMENT

- 1) Federal Reserve Bank

REGIONAL BROKERS

- ~~1) H&R Block Financial Advisors, Inc.~~
- ~~2) Morgan Keegan & Company, Inc.~~
- ~~3) RBC Dain Rauscher, Inc.~~
- ~~4) UBS Financial Services Inc.~~
- ~~5) Vining Sparks IBG, L.P.~~
- 1) Loop Capital Markets, LLC
- 2) M&T Securities, Inc.
- 3) SunTrust Robinson Humphrey

PUBLIC DEPOSITORIES

- 1) Suntrust Bank (sunset on 12/31/2011)
- 2) Suburban FSB Branch Banking and Trust (BB&T)
- 3) Bank of America – Complus collections
- 4) Authorized CDARS providers located within the corporate boundaries of Rockville

TRUSTEE

- 1) Suntrust (sunset on 12/31/2011)
- 2) Branch Banking and Trust (BB&T)

ATTACHMENT 2
Glossary of Cash and Investment Management Terms

ACCRUED INTEREST

Interest accumulated on a security since the issue date or the last coupon payment.

AGENCY

A 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).

ASKED

The price at which securities are offered.

BANKERS'S ACCEPTANCE ("BA")

A draft, bill, or exchange accepted by a bank or a trust company. Both the issuer and the accepting institution guarantee payment of the bill.

BASIS POINT

A unit of measurement used in the valuation of fixed-income securities. One basis point is one hundredth of one percent of yield.

BID

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

BOOK VALUE

The value at which a security is carried in the financial records of an investor. The Book Value may differ significantly from the security's current value in the market. Book value is acquisition cost less amortization of premium or accretion of discount.

BROKER

A broker brings buyers and sellers together so that he can earn a commission.

CERTIFICATE OF DEPOSIT ("CD")

A time deposit with a specific maturity, as evidenced by a certificate. Large-denomination CDs are typically negotiable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SERVICE ("CDARS")

A service that offers a deposit instrument that breaks up large deposits and places them across a network of banks and savings institutions around the United States. CDARS allows the City to deposit funds in a single bank, that then invests the funds in several certificates of deposit below the FDIC insurance limits. CDARS deposits are competitively bid among authorized providers.

COLLATERALIZATION

Process by which a borrower pledges securities, property or other deposits for securing the repayment of a loan and/or security. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER

An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (“CAFR”)

The official audited annual financial report for the City of Rockville.

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, that evidences interest due on a payment date.

CURRENT MATURITY

Amount of time left to maturity of an obligation. (For example, a one-year bill issued nine months ago has a current maturity of three months.

DEALER

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

DELIVERY VERSUS PAYMENT (DVP)

A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or the purchasers custodian.

DERIVATIVES

(1) Financial instruments that are linked to, or derived from, the movement of one or more underlying indexes or securities, and may include a leveraging factor; or (2) financial contracts based upon a notional amount whose value is derived from an underlying index or security (e.g., interest rates, foreign exchange rates, equities, or commodities).

DISCOUNT

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

DISCOUNT SECURITIES

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

DIVERSIFICATION

A process of investing assets among a range of security types by sector, maturity, and rating to eliminate portfolio risk.

FACE VALUE

The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

FEDERAL CREDIT AGENCIES

Agencies of the Federal Government that were established to supply credit to various classes of institutions and individuals (e.g., S&Ls, small business firms, students, farmers, farm cooperatives, and exporters)

FEDERAL DEPOSIT INSURANCE CORPORATION (“FDIC”)

A federal agency that insures bank deposits, currently up to \$~~100,000~~250,000 per deposit.

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) that 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). It is the largest single provider of residential mortgage funds in the United States. 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 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 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (“GNMA” or “Ginnie Mae”)

Securities that influence the volume of bank credit that is guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. A security holder is protected by the full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FMHM mortgages. The term “passthroughs” 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.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP)

An investment by local governments in which their money is pooled as a method for managing local funds.

MARKET VALUE

The current market price of a security.

MARK-TO-MARKET

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

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.

MONEY MARKET

The market in which short-term debt instruments (e.g., bills, commercial paper, banker's acceptances) are issued and traded.

OFFER

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

PAR VALUE

The face value or principal value of a bond.

PORTFOLIO

A collection of securities held by an investor.

PRIMARY DEALER

A group of government securities dealers that 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.

PRINCIPAL

The face value or par value of a debt instrument, or the amount of capital invested in a given security.

PRUDENT INVESTOR RULE

An investment standard. A fiduciary, such as a trustee, may invest in a security if it is one that would be bought by a prudent investor acting in like capacity, who is seeking reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES

A financial institution that: (1) does not claim exemption from the payment of any sales, compensating use, or ad valorem taxes under the laws of this state; (2) has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability; and (3) 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.

RATING

The designation used by investor services to rate the quality of a security's creditworthiness.

REPURCHASE AGREEMENT ("RP" OR "REPO")

An agreement of one party to purchase 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.

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.

SECURITIES AND EXCHANGE COMMISSION (SEC)

An agency created by Congress to administer securities legislation for the purpose of protecting investors in securities transactions.

STRUCTURED NOTES

Notes issued by instrumentalities (e.g., FHLB, FNMA, SLMA) and by corporations, that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) in their debt structure. The market performance of structured notes is affected by fluctuating interest rates; the volatility of imbedded options; and shifts in the yield curve.

TREASURY BILLS

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

TREASURY BONDS

Long-term, coupon-bearing U.S. Treasury securities that are 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 that are issued as direct obligations of the U.S. Government, and having initial maturities of two to 10 years.

UNDERWRITER

A dealer who purchases a new issue of municipal securities for resale.

WEIGHTED AVERAGE MATURITY (WAM)

The average maturity of all the securities that comprise a portfolio. According to SEC rule 27a-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.

YIELD

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

YIELD CURVE

A graphic representation that shows the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.