CALIFORNIA MUNICIPAL TREASURERS ASSOCIATION CERTIFIED INVESTMENT POLICY


CALIFORNIA MUNICIPAL TREASURERS ASSOCIATION

Investment Policy Certification

CALIFORNIA REPUBLIC

City of Menifee

The California Municipal Treasurers Association certifies that the investment policy of the City of Menifee complies with the current State statutes governing the investment practices of local government entities located within the State of California. This Policy shall be certified for the duration of one calendar year beginning February 11, 2013.

CMTA Over 50 Years of Excellence

Gina Tharani
President

February 26, 2013
Date

Certification Date:	February, 2013
Finance Director:	Terri Willoughby

RESOLUTION NO. 12- 299

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MENIFEE, CALIFORNIA, APPROVING THE FISCAL YEAR 2012-13 INVESTMENT POLICY AND APPROVING DELEGATION TO THE CITY TREASURER TO CARRY OUT SUCH POLICY

Whereas, Government Code Section 53607 permits the City Council to delegate its investment authority to the City Treasurer by resolution each fiscal year; and

Whereas, the City Council desires to make such delegation in conjunction with the approval of an investment policy;

NOW, THEREFORE, the City Council of the City of Menifee, California, does hereby RESOLVE, DETERMINE and ORDER as follows:

SECTION 1: The City Council hereby adopts the Statement of Investment Policy, attached and incorporated here as Exhibit "A".

SECTION 2: The City Council hereby delegates to the City Treasurer the City Council's investment authority and authorizes the City Treasurer to appoint deputies to assist in carrying out this function for fiscal year 2012-13.

PASSED, APPROVED AND ADOPTED this 4th day of December, 2012

Scott A. Mann, Mayor

RECEIVED
JAN 22 2013

Attest:

Kathy Bennett, City Clerk

Approved as to form:

Joseph W. Fletcher, City Attorney

Scott A. Mann
Mayor

Wallace W. Edgerton
Deputy Mayor

John V. Denver
Councilmember

Thomas Fuhrman
Councilmember

Greg August
Councilmember

STATE OF CALIFORNIA)
COUNTY OF RIVERSIDE) ss
CITY OF MENIFEE)

I, Kathy Bennett, City Clerk of the City of Menifee, do hereby certify that the foregoing Resolution No. 12-299 was duly adopted by the City Council of the City of Menifee at a meeting thereof held on the 4th day of December, 2012 by the following vote:

Ayes:	August, Denver, Edgerton, Fuhrman, Mann
Noes:	None
Absent:	None
Abstain:	None

KBennett

Kathy Bennett, City Clerk

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Menifee, CA 92586
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CITY OF MENIFEE Finance Policy	Policy Number: **FN-03** Approving Authority: **City Council**
Subject **Investment Policy (FY 2012-2013)**	Effective Date: 12/04/12 Last Modified: 11/15/11

1.0 PURPOSE

This statement is intended to provide guidelines for the prudent investment of the City of Menifee's (City) temporary idle cash. It is intended to provide meaningful guidance in the management of the City's investment portfolio and not be overly restrictive given the changing economic and investment market conditions.

2.0 SCOPE / BACKGROUND

This Investment Policy applies to all financial assets and investment activities of the City with the following exceptions:

1. Investments in the City's Defined Contribution Plans (Deferred Compensation)
2. Proceeds of debt issuance shall be invested in accordance with the City's general investment philosophy as set forth in this policy; however, such proceeds are invested in accordance with permitted investment provisions of their specific bond indentures

Pooling of Funds: Except for cash in restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation in accordance with generally accepted accounting principles.

3.0 POLICY

It is the policy of the City of Menifee to invest public funds in a manner which will provide the highest investment return with the maximum security, while meeting the daily cash flow demands of the entity, and conforming to all state and local statutes governing the investment of public funds.

This policy statement shall be reviewed no less than annually by the Finance Committee and shall be re-adopted by the City Council every year.

4.0 PROCEDURE

I. PRUDENCE

The overall program shall be designed and managed with a degree of professionalism worthy of the public trust.

Investment officials managing City funds shall use the "Prudent Investor" standard. Investment officers acting in accordance with this Policy, written portfolio guidelines and procedures, and exercising due diligence shall be relieved of personal responsibility for individual security's credit risk and/or market price changes, provided deviations from expectations are reported in the monthly and quarterly investment reports to the City Council, and appropriate action is taken to control adverse developments.

The Prudent Investor Standard of Care, as described in California Government Code Section 53600.3 states that " . . . 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."

II. OBJECTIVES

Preservation and protection of the City's capital is the guiding philosophy of the investment program, which will be managed in accordance with California Government Code Section 53600 *et seq.*

It is expected that the City's investment objectives will be achieved over a minimum time horizon of 3 – 5 years. Given the cyclical nature of the financial markets, the success of the portfolio manager in achieving these goals should not be judged in any shorter period of time.

Objectives for selecting investments in order of priority are:

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

2. *Liquidity*: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

3. *Return*: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs. The targeted rate of return on the City's portfolio is more specifically defined in Section XVII.

Safety of Principal. The City's first objective shall be to protect the portfolio's value by instituting prudent practices to manage portfolio risk and by instituting a system of controls that is adequate to protect against fraud or mismanagement. Examples of prudent practices to manage portfolio risk include establishing a target average duration to control exposure to market risk; establishing a minimum rating standard for corporate investments to control credit risk; and establishing appropriate diversification standards.

The City's goal is to safeguard the principal of the funds invested; however, 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 rate of return of the portfolio in response to market conditions and/or the City's risk preferences.

Liquidity. The second objective of the Investment Program shall be to have sufficient funds to ensure the City can meet all cashflow requirements that may be reasonably anticipated. This objective may be achieved in a number of ways including purchasing short-maturity investments, matching investment maturities to known cash outflows, and investing in the Local Agency Investment Fund (LAIF), which is managed by the State Treasurer for the benefit of California local agencies. Adequate liquid cash should be maintained by the City so that a forced sale of longer-term securities at a loss is unnecessary to cover short-term cash needs.

Yield (Rate of Return). The third objective of the Investment Program shall be to attain an average market rate of return through budgetary and economic cycles consistent with the risk limitations, prudent investment principles, and cash flow characteristics identified herein. For comparative purposes, the City will compare its performance to the performance of market benchmarks of similar duration and sector allocation.

> **Preservation of Purchasing Power.** The City's goal for asset growth, exclusive of contributions and withdrawals, is to equal or exceed the rate of inflation in order to preserve the purchasing power of the City's assets. The preservation of purchasing power is also known as the "Real Rate of Return" (RRR).
>
> **Growth of Capital and Market Benchmark.** The City's portfolio is divided into two segments, designated as the Liquidity Portfolio and the Reserve Portfolio. Investment performance in each segment shall be measured as the total rate of return, including interest earnings, realized gains and losses and unrealized market value changes.

III. DELEGATION OF AUTHORITY

Authority to manage the City of Menifee's investment program is derived from City Council Resolution. Management responsibility for the investment program is hereby delegated to the City Treasurer who shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officials and their procedures in his/her absence.

The City of Menifee's Treasurer is authorized to:

A. Formulate any and all procedures necessary to implement this policy.

B. Determine the allocation of the City's total funds available for investment.

C. Engage investment management consultants to assist in the investment, management, oversight, evaluation, or other services related to the City's investments.

D. Take other actions, as appropriate and necessary, to implement and carry out this policy.

IV. INVESTMENT PROCEDURES

The City Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to safekeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Manager.

Subject to the limitations stated herein, and when the services of an investment management consultant are utilized, the designated investment manager is given full discretion consistent with the investment objective of the investment portfolio.

V. ETHICS AND CONFLICTS OF INTEREST

Officers, employees, and agents involved in the investment process for the City of Menifee shall refrain from personal business activities that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial decisions. Officers, employees, and agents involved in the investment process shall abide by the California Government Code Section 1090 *et seq.* and the California Political Reform Act, California Government Code Section 81000 *et seq.*

VI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the City Treasurer with the following: audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of state registration, completed broker/dealer questionnaire, and certification of having read entity's investment policy and depository contracts.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the City Treasurer. Also, a current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

The City Treasurer will require all authorized financial institutions with which City funds are on deposit to provide a copy of the institution's annual report. The annual report shall include audited financial statements and any other information deemed pertinent by the City Treasurer.

The City's Investment Adviser may execute investment transactions using broker/dealers approved by the Investment Adviser.

VII. AUTHORIZED AND SUITABLE INVESTMENTS

The California Government Code authorizes public agencies to invest in a broad array of high quality fixed income securities. However, the City of Menifee limits its investments to the following vehicles:

- Securities issued or guaranteed by the full faith and credit of the United States Government or its agencies, which include, but are not limited to: FDIC, FFCB, FHLB, FNMA, FHLMC, GNMA, TVA.
- Negotiable and Non-negotiable Certificates of Deposit (5-year maximum).
- Commercial Paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Investor Services.
- Banker's Acceptances.
- Local Agency Investment Fund (LAIF).
- Passbook savings demand deposits.
- Mutual funds that invest only in State of California authorized investments.
- SEC-registered money market mutual funds.
- Corporate Bonds rated "A" or better.
- Authorized investment pools

Any amendments to the policy must be submitted to the City Council for review and approval.

VIII. INVESTMENT POOLS AND MUTUAL FUNDS

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- A determination of whether reserves, retained earnings, etc. are utilized by the pool.
- A fee schedule, and when and how fees are assessed.
- A determination of whether the pool is eligible for bond proceeds and/or will it accept such proceeds.

IX. PROHIBITED INVESTMENTS

Pursuant to Government Code Section 53601.6, local agencies are prohibited from making investments in the following vehicles:

- Inverse floaters, range notes, or mortgage-derived interest-only strips
- Zero-interest coupon securities

- The City further limits investments by expressly prohibiting investments in the following:

  - Stocks
  - Futures and options
  - Asset-backed and mortgage backed securities
  - Repurchase agreements
  - Reverse repurchase agreements
  - Any other investment which in the future may be prohibited by applicable law

X. SAFEKEEPING AND CUSTODY

Deposits of surplus funds must be made in State or National banks, State or Federal savings associations or State or Federal credit unions within the State of California. The deposits cannot exceed the amount of the institution's paid-up capital and surplus.

The institution must collateralize deposits of public funds in accordance with California law.

The City Treasurer may waive collateral for that portion of a deposit which is insured pursuant to Federal law. Currently, the first $250,000 of a deposit is federally insured. Deposits in excess of insured amounts must be collateralized.

All security transactions entered into by the City of Menifee shall be conducted on a **delivery-versus-payment (DVP)** basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

XI. DIVERSIFICATION

The City of Menifee will diversify its investments by security type and institution. Securities purchases and holdings are maintained within statutory limits imposed by the California Government Code. The City further limits its investments as follows (as a percentage of the overall portfolio):

City of Menifee
Diversification Requirements

Investment	Limit
Savings Account	No limit
U.S. Treasury Obligations	No limit
Agency Obligations, including FDIC-insured corporate obligations	No limit ≤30% per agency
Local Agency Investment Fund (LAIF)	Legal limit (Currently $50 million)
Certificates of Deposit	10%
Banker's Acceptances	10%
Commercial Paper	10%
Corporate Bonds rated "A" or higher	30%

The per issuer maximum investment in obligations of any single corporate issuer (excluding FDIC-insured corporate obligations), including money market instruments and corporate notes may not exceed 5% of total portfolio value.

XII. MAXIMUM MATURITIES

Unless matched to a specific cash flow, and with prior City Council approval, the City will not invest in securities maturing more than five (5) years from the date of purchase.

XIII. INTERNAL CONTROL

The City Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

XIV. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

Portfolio performance will be measured and reported no less than quarterly by the investment manager. Investment performance will be measured against commonly accepted market benchmarks which reflect the City's investment objectives and constraints.

Liquidity Portfolio. The City shall strive to achieve a return on the Liquidity Portfolio, exclusive of contributions and withdrawals, that equals or exceeds the return on a market index of US Treasury securities with maturities less than or equal to six months. It is anticipated that the return on the Liquidity Portfolio will equal the return on the Local Agency Investment Fund (LAIF) over a market cycle. If the investment policies of LAIF should change, this objective will be re-evaluated.

Reserve Portfolio. The City shall strive to achieve a return on the Reserve Portfolio, exclusive of contributions and withdrawals, that is comparable to the return on a market index that reflects the City's risk profile and return expectations. The current market benchmark for the Reserve Portfolio shall be the Merrill Lynch Index of 1-5 year Government Securities.

XV. REPORTING

The City Treasurer shall render a monthly investment report to the City Council and the City Manager. The report shall include the type of investment, institution, date of maturity, par value and amount of investment, rate of interest, current market value, source of the market value, and such other data as may be required by the City Council. The report shall also include a statement denoting the ability of the City to meet its expenditure requirements for the ensuing six (6) months or an explanation as to why sufficient funds may not be available and a statement that the City's investment portfolio is in compliance with the City's Investment Policy or the manner in which it may not be in compliance. *{Sec. 53646}*

XVI. INVESTMENT POLICY ADOPTION:

This investment policy shall be adopted by resolution of the City Council of the City of Menifee. The policy shall be reviewed annually by the City Council and any modifications made thereto must be approved by the City Council.

5.0 ROLES AND RESPONSIBILITIES

The City Treasurer is responsible for managing the investment program in accordance with this policy, as delegated by the City Council.

6.0 DEFINITIONS

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.
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.
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.
GNMA. The Government National Mortgage Association, known as "GinnieMae," issues mortgage pass-through securities which are guaranteed by the full faith and credit of the US Government.
PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.
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.

Average life. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

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.

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.

Collateralized Mortgage Obligations (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

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.

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.

Haircut. The margin or difference between the actual market value of a security and the value assessed by the lending side of a transaction (i.e. a repo).

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.

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.

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. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

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

Prepayment speed. A measure of how quickly principal is repaid to investors in mortgage securities.

Prepayment window. The time period over which principal repayments will be received on mortgage securities at a specified prepayment speed.

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 investor 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 (RP, 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 to bank customers whereby securities are held by the bank in the customer's name.

Structured note. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

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. 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.

Revision History

Revision No.	Date Approved	Approved By:	Comments
0			Original Policy
1			