

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
ACTION AGENDA SUMMARY

Tom Watson

DEPT: Treasurer/Tax Collector-Treasury

BOARD AGENDA # B-28

Urgent _____ Routine X

AGENDA DATE July 10, 2001

CEO Concurs with Recommendation YES X NO _____
(Information Attached)

4/5 Vote Required YES _____ NO _____

SUBJECT: APPROVAL OF CHANGES TO OPERATING FUNDS TREASURY POOL INVESTMENT POLICY TO BE EFFECTIVE JULY 11, 2001 AND RENEWAL OF DELEGATION OF INVESTMENT AUTHORITY TO THE STANISLAUS COUNTY TREASURER/TAX COLLECTOR.

STAFF
RECOMMEN-
DATIONS:

1. APPROVE THE STANISLAUS COUNTY TREASURY POOL INVESTMENT POLICY (ATTACHED) AS PREPARED BY THE STANISLAUS COUNTY TREASURER/TAX COLLECTOR, TOM WATSON, AND REVIEWED FOR CONFORMITY WITH STATE LAW BY THE STANISLAUS COUNTY TREASURY POOL OVERSIGHT COMMITTEE ON MAY 24, 2001.
2. APPROVE THE DELEGATION OF INVESTMENT AUTHORITY TO THE STANISLAUS COUNTY TREASURER/TAX COLLECTOR FOR A ONE-YEAR PERIOD.

FISCAL
IMPACT:

Preparation, of the investment policy is mandated by state law. The updating of the policy is done in the regular course of business, and requires varying degrees of staff time each year depending on changes or lack thereof. The cost associated with the policy update this year is estimated at \$1,500.

BOARD ACTION AS FOLLOWS:

No. 2001-534

On motion of Supervisor Blom , Seconded by Supervisor Caruso
and approved by the following vote,

Ayes: Supervisors: Mayfield, Blom, Simon, Caruso, and Chair Paul

Noes: Supervisors: None

Excused or Absent: Supervisors: None

Abstaining: Supervisor: None

1) X Approved as recommended

2) _____ Denied

3) _____ Approved as amended

Motion:

Christine Ferraro

ATTEST: CHRISTINE FERRARO TALLMAN, Clerk

By: Deputy

File No.

DISCUSSION: In 2001 the Treasurer's Office reviewed the Treasury Pool's Investment Policy in accordance with legal mandate for an annual review.

During the review several changes were made to assist in more efficient investment practices. An additional section was incorporated into the policy which addresses the apportionment of investment earnings from the Treasury Pool. The changes and addition are reflected in the attached memorandum "Recommended Changes to the Investment Policy.

These changes reflect our continuing pursuit of meeting or exceeding our customers' expectations.

The recommended changes were prepared by the County Treasurer and approved by the Treasury Oversight Committee as of May 24, 2001.

An annual delegation of investment authority is provided in Government Codes Section 53607.

POLICY
ISSUES:

Government Code section 53646 requires an annual review of the investment policy for the County's Treasury Pool of investments. The Treasurer prepares recommended changes with review by the Treasury Oversight Committee and final review and approval by the Board of Supervisors. Government Code Section 53607 authorizes the Board of Supervisors to delegate investment authority to the County Treasurer for a one year period.

STAFFING
IMPACT:

Approval of the changes made to the Operating Funds Treasury Investment Policy does not require additional staffing.



Stanislaus County

OFFICE OF

TOM WATSON

TREASURER AND TAX COLLECTOR

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MEMO

TO: Treasury Oversight Committee
Larry Haugh, Stanislaus County Auditor-Controller
John Enero, Public Member
John Gongaware, SCOE Asst. Superintendent-Business Services

FROM: Tom Watson, Stanislaus County Treasurer/Tax Collector *Tom Watson*

SUBJECT: Recommended Changes to the Investment Policy

DATE: April 30, 2001

I recommend the following changes to the Investment Policy:

1. Page 4 - Under **AUTHORIZED INVESTMENTS** section "i" Repurchase Agreements...
Delete a "primary" and insert "an approved broker!"
[note: This will allow repurchase agreements with PaineWebber]
2. Page 4 - Under **AUTHORIZED INVESTMENTS** section "j" Medium Term Notes...
After...The notes must be rated "A" or higher...insert by **Standard and Poor's**
(or other equivalent rating)
3. Page 8 - Under **Agencies Voluntary Depositing and Withdrawal**
Following The agency's...for cash outflow...insert **Any agency request which results in an immediate liquidation of investment securities at a loss will only be honored after the agency has acknowledged and approved to bear the loss incurred.**
4. Page 8 - Add Section: **INVESTMENT EARNINGS APPORTIONMENT AND RATE**
INVESTMENT EARNINGS APPORTIONMENT AND RATE

Beginning July 1, 2001, the Pool's investment earnings shall be apportioned by the following method. The investment earnings which have been received in cash and accumulated from the beginning to the end of each calendar quarter shall be apportioned to each cash balance account maintained within the Pool. The apportionment of earnings to any particular cash balance account will be in direct proportion of that account's average daily cash balance to the entire Pool's average daily cash balance for that same quarter. For example, if the earnings received for the quarter ending March 31 were \$5,000,000, and if the County General Fund's average daily cash balance were \$10,000,000 and if the entire Pool's average daily

4. Page 8 - Add Section: **INVESTMENT EARNINGS APPORTIONMENT AND RATE**
(continued)

cash balance were \$500,000,000, then the amount of earnings to apportion to the County's General Fund would be \$100,000 (calculated as \$5,000,000 x \$10,000,000/\$500,000,000). Cash balance accounts shall be maintained in and earnings apportionment shall be performed by the Stanislaus County Auditor-Controller's Office. The cash earnings apportionment rate is calculated as the investment earnings received in cash for the quarter divided by the average daily cash balance for the entire Pool times four (4). In the above example, the cash earnings apportionment rate is 4% (\$5,000,000 / \$500,000,000 x 4).

5. Page 9 - Section **EXEMPTIONS AND AMENDMENTS**

Following Any investment currently held...insert **prior to the adoption of changes to the Investment Policy**...that does not meet the ...insert **newly revised**... guidelines of this Policy

All of the above changes are shown as follows:

~~*(Deleted language)*~~ appears as words bolded, italicized and underlined within brackets and crossed out

Inserted language appears as words bolded, italicized and underlined

The entire Investment Policy with re-wording is attached.

cc: Donna Riley, Assistant Treasurer

THE STANISLAUS COUNTY TREASURY POOL INVESTMENT POLICY

Effective July 11, 2001

Prepared by: Tom Watson, Stanislaus County Treasurer/Tax Collector

Approved by the Stanislaus County Treasury Pool Oversight Committee
on May 24, 2001.

Approved by the Stanislaus County Board of Supervisors on July 10, 2001.

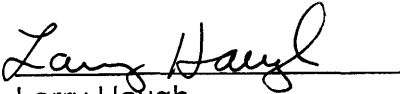
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Stanislaus County Treasury Pool Oversight Committee Certification


The undersigned members of the Stanislaus County Treasury Pool Oversight Committee ("Committee") certify that they have reviewed this investment policy which has 9 pages and a Glossary as prepared by the Stanislaus County Treasurer, Tom Watson, and find to the best of their knowledge that the policy conforms to California State law regarding investment of local public agency funds.

Signed:



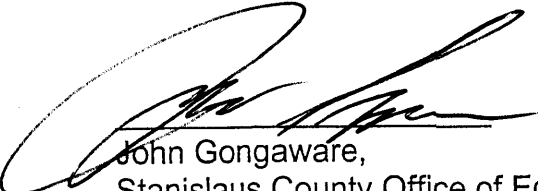
Larry Haugh,
Stanislaus County Auditor-Controller

May 24, 2001
Date



John Enero,
Public Representative

May 24, 2001
Date



John Gongaware,
Stanislaus County Office of Education
Assistant Superintendent of Business Services

6-4-01
Date

PURPOSE AND SCOPE

The **purpose** of the Stanislaus County Treasury Pool Investment Policy ("Policy") is to provide guidance of the investment of funds in excess of the current day's necessary expenditure which by California State law ("Law") and local ordinance are entrusted to and delegated to the Stanislaus County Treasurer for investment.

The **scope** of this policy applies solely to funds deposited with the Stanislaus County Treasurer for operating needs as part of the Stanislaus County Treasury Pool ("Pool") of funds. Local legislative and directive bodies such as the Board of Supervisors, various school boards, district boards and special agency boards which by Law have authority to invest funds entrusted to such bodies outside of the Pool (including but not limited to employee retirement funds and bond proceeds) are not constrained to adhere to this policy for investment of funds outside of the Pool.

OBJECTIVE

The primary objective of the investment of short term operating funds is to maintain the principal of such funds (safety) in investment vehicles which are easily converted to cash (liquidity) while obtaining a competitive market rate of return (yield) for the risk taken at the time of investing.

Safety of principal is of paramount importance. Investments will only be made in securities which have a very high probability of maintaining the principal invested. Only highly rated or strongly collateralized investments will be made. Diversification by type of investment, issuer and maturity to minimize the risk of loss of principal due to credit deterioration or interest rate volatility will be made. Sales of securities before maturity may be made if at a gain or to avoid an anticipated default of payment by the issuer of interest or principal.

To achieve appropriate **liquidity** needs the Pool's investments must be in maturity ranges which meet normal, anticipated disbursement requirements of all depositors as can be determined by historical disbursement patterns as well as communicated forecasts by depositors. Unanticipated cash disbursement needs require that investments be easily convertible to cash by maintaining shorter maturities in highly traded securities.

To achieve a competitive market rate of return or **yield**, individual investment decisions must be made on a competitive basis. Due to the primary need of maintaining the purchasing power and cash availability of depositors' funds, the portfolio's yield will normally be lower than that of higher-risk, longer maturity investment pools. An earnings rate goal for the fund will generally achieve a yield which is 100 basis points higher than inflation.

INVESTMENT AUTHORITY AND STANDARDS OF CARE

The daily investment of Pool funds has been delegated to the Stanislaus County Treasurer/Tax Collector ("**Treasurer**") pursuant to Government Code section 27000.1 and the Stanislaus County Board of Supervisors' ordinance 2.30.010 (approved April 16, 1996). This delegation can be revoked by the Board of Supervisors at any time. The Treasurer is responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates. All transactions must comply with Law and be in conformity with this Policy. The Treasurer shall have written policies and procedures to insure investment compliance including:

- A listing of authorized financial institutions and broker/dealers. Broker/dealers may include "primary" or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) with a minimum capitalization of \$10,000,000 and with broker/dealer staff who have at least five years experience in Pool investment transactions with California local government investment officials who supply the following:

1. Proof of National Association of Securities Dealers (NASD) certification
2. Proof of California State registration
3. Verification of review of and willingness to comply with this Policy

Broker/dealers are prohibited from making political contributions to any candidate for the Board of Supervisors or Treasurer/Tax Collector which exceed the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board.

- Internal controls as approved and monitored by the Stanislaus County Auditor-Controller in accordance with Law and which address control to avoid or detect collusion, appropriate separation of duties, custodial safekeeping, avoidance of physical delivery of securities, clear delegation of investment authority and responsibilities, written confirmation (acceptable via fax) by Treasurer for investments which mature in more than one year, and an appropriate wire transfer arrangement between a lead banking institution and the third party custodian.

All investments shall be made with the care, skill, **prudence** and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims. Financial market security transactions will be executed by delivery versus payment and the securities will be held by a third party custodian.

INVESTMENT AUTHORITY AND STANDARDS OF CARE (Continued)

To avoid even the appearance of a **conflict of interest**, all officers and employees involved in the investment process shall refrain from personal business activity which in any way could hinder the proper execution and management of the investment program or impair anyone's ability to make an impartial decision.

Pursuant to Government Code Sections 27132.1, 27132.2 and 27132.3 Committee members are prohibited from:

1. being an employee of an entity which has contributed to the campaign fund of any candidate for local treasurer or legislative body either during membership or three years prior to membership
2. raising any money for a candidate for local treasurer or governing board
3. Securing employment with bond underwriters, bond counsel, security brokerages or dealers, or with financial services while a Committee member or for three years after leaving the Committee.

A limit of \$50 per calendar year is placed on the receipt of honoraria, gifts and gratuities from advisors, brokers, dealers, bankers or other persons with whom the County Treasury conducts business by any member of the Committee, the County Treasurer and any staff involved in the investment process.

AUTHORIZED INVESTMENTS

Pursuant to Government Code Section 53601, investments will only be made in authorized securities with a maturity date of five (5) years or less from the transaction settlement date. All investments (except in mutual funds) must be in securities which have a positive return if held to maturity. The following instruments are authorized for investment (and other instruments are prohibited):

- a. Bonds issued by Stanislaus County or by a department, board agency or authority of Stanislaus County.
- b. United States (U.S.) notes, bonds, bills or certificates of indebtedness or those for which the faith and credit of the U.S. are pledged for the payment of principal and interest.
- c. California State registered warrants, treasury notes or bonds

AUTHORIZED INVESTMENTS (Continued)

d. California local agency bonds, notes, warrants or other indebtedness and the California State Local Agency Investment Fund (LAIF).

e. Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank (FHLB) Board, the Tennessee Valley Authority (TVA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), issuances or guaranteed instruments, and obligations of U.S. federal agencies or a U.S. government-sponsored enterprise. Investment in Small Business Administration (SBA) notes is prohibited.

f. Bankers' Acceptances (BAs) which are eligible for purchase by the Federal Reserve System and which do not have a maturity date longer than 270 days from the settlement date. At the time of investment, no more than 40% of the Pool may be invested in BAs with a maximum 20% of the Pool in BAs of one commercial bank.

g. Commercial paper (CP) of "prime" quality (rated A-1 by Moody or P-1 by Standard and Poor's Corporation) of a U.S. corporation having assets in excess of \$500,000,000 and a long term debt rating of "A" or higher. The maturity date may not exceed 180 days from the settlement date nor represent more than 10% of the total outstanding CP issuance of the corporation. No more than 15% of the Pool may be invested in CP unless the dollar weighted average maturity is 31 days or less in which case the total invested may be 30% of the Pool.

h. Negotiable certificates of deposit (NCDs) issued by a nationally or state chartered bank or state licensed branch of a foreign bank. No more than 30% of the Pool may be invested in NCDs with no more than 5% of the Pool invested in any one bank's NCD.

i. Repurchase agreements (REPOs) with ~~fa "primary"~~ an approved broker/ dealer of any security authorized by Government Code section 53601 with a market value of 102% of the agreement and a term of not more than 90 days. Reverse repurchase agreements are prohibited.

j. Medium Term Notes (MTNs) of U. S. corporations or depository institutions which have maturities of five years or less from the settlement date. The notes must be rated "A" or higher by Standard and Poor's (or other equivalent rating). No more than 30% of the Pool shall be invested in MTNs with no more than 5% of the Pool invested in the MTNs of any one corporation at the time of the investment.

AUTHORIZED INVESTMENTS (Continued)

k. Diversified management company shares (mutual fund/MF) which invest in instruments authorized in Government Code section 53601 (a) to (l) inclusive. The company must have the highest rating by two of three recognized rating agencies or have an investment adviser registered with the Securities and Exchange Commission (SEC) with at least five years of experience investing in securities authorized by Government Code section 53601 (a) to (m) inclusive and with assets under management in excess of \$500,000,000. At the time of MF shares purchase no more than 15% of the Pool may be invested in these securities with no more than 5% in any one mutual fund.

l. Certificates of Deposit (CDs) in banks which are 110% collateralized by the institution with government securities. At the time of investment no more than 5% of the Pool may be invested in any one bank's CDs.

m. Investment in securities which are commonly referred to as "derivatives" such as interest only strips on mortgage pools, options, puts, inverse floaters or other speculative investments is prohibited.

REPORTING REQUIREMENTS

A **monthly report** shall be prepared by the Treasurer no later than 30 days following the end of the monthly reporting period for review and approval by the Committee before forwarding to the Board of Supervisors for final review and acceptance. The monthly report's management summary shall then be distributed to Pool agency depositors as follows:

Stanislaus County: Chief Executive Officer and Auditor-Controller

Schools: County Superintendent and Assistant Superintendent of
Business Services
Modesto City Schools Superintendent and Assistant
Superintendent of Business Services
(Other schools may make written request to the County Office of Education
for copies)

Special Districts: Chief executive or manager of any special district for which the Board of Supervisors is not the district board and which has on average more than \$5,000,000 on deposit in the Pool

Stanislaus County Employees' Retirement Association: Chair of the Retirement Board

Other parties upon written request to the Treasurer

REPORTING REQUIREMENTS (Continued)

The monthly report shall include:

-A concise management summary of Pool activity and position rendered with statements of review and reconciliation with custodial records, source of market valuation, ability to meet next six (6) month's expenditures and for compliance with this Policy by the Treasurer with Committee review signature and Board of Supervisors' approval

-A detailed listing of securities held at the end of the month grouped by investment type (e.g. BA, CD, CP) and delineated as follows:

- Issuing agency (e.g. U.S. Government, FNMA, GE Capital)
- Date purchased (settlement date)
- Date of maturity
- Par Value
- Book Value
- Market value
- Stated rate (coupon rate)
- Yield-to-Maturity
- Days-to-Maturity

-A detailed listing of security transactions during the report period (purchases, sales and maturities) grouped by investment type and to include the following:

- Date of transaction
- Issuing agency (e.g. U.S. Government, FNMA, GE Capital)
- Purchase, Deposit, Sale, Maturity or Withdrawal Amount
- Stated rate (coupon rate)

-A summary of Pool position by investment type dollar amount, percentage of total portfolio and average weighted maturity showing compliance with Policy limitations as well as an annualized "cash" rate of return net of expenses for year-to-date interest received on average daily balances for the Pool as a whole.

-A summary by investment type of beginning period position, purchases and sales/maturities and ending position.

ANNUAL AUDIT

An annual audit shall be conducted to insure that investment transactions are in compliance with Law and this Policy. The audit shall be supervised by a Certified Public Accountant (CPA) who shall render an opinion to the Committee. The opinion shall be forwarded to the Board of Supervisors for review and acceptance. The selection of the CPA shall be by the Stanislaus County Auditor-Controller as a Committee member.

INVESTMENT POOL EXPENSES

The expenses of administration of the Pool shall be borne by all depositors by the utilization of investment earnings to offset the costs. Total costs shall not exceed 25 basis points (0.25%) of the average Pool daily balance for any fiscal year. Costs include normal Treasury costs for staff and support services in the areas of handling, safekeeping and depositing monies received; investment transactions and custodial safekeeping of securities; bank services; accounting, reporting and auditing of deposit and investment transactions; informational and educational materials and services related to financial markets, investments and individual business and governmental entities' financial condition; and other duties and costs related to the management of Pool funds. Appropriate costs normally charged as "Treasury/org 30400" on the Stanislaus County Auditor-Controller's records will incorporate and clearly define the Pool expenses.

AGENCIES' VOLUNTARY DEPOSITING AND WITHDRAWAL

"Voluntary" agency depositing is discouraged due to the potential volatility of depositing and withdrawal which may occur. The Pool is designed as an operating fund for Stanislaus County and entities which are required to deposit by Law or have historically utilized the efficiencies of the Treasury by Law.

Only those agencies which use the Treasury for operational purposes due to their ties to Stanislaus County departmental functions, area schools or special public districts and are either required or allowed to deposit funds in the County Treasury are allowed to be participants in the Pool.

Withdrawals from the Pool for investment purposes outside of the Pool by non-County member agencies may be done if the following conditions are met:

- The agency has provided the Treasurer with legal authority that it can invest funds outside of the Pool
- The agency shows evidence of maintaining a **minimum cash balance** of one month's normal payroll expenditures for 30 days prior to the date of request as verified by the Stanislaus County Auditor-Controller
- The agency withdraws a minimum of \$1,000,000 and will continue to maintain its Pool cash balance of one month's normal payroll costs
- The agency makes its request in writing signed by an authorized representative of the agency's board on a form provided by the Treasurer
- The agency must allow two business days for each five million dollar or increment thereof which is being withdrawn (e.g. a \$15,000,000 withdrawal would require that the Treasurer receive a completed request form with appropriate signatures and verifications 6 business days before the funds are released)

AGENCIES' VOLUNTARY DEPOSITING AND WITHDRAWAL (Continued)

If the withdrawing agency's Pool cash balance falls below one month's payroll expense the Treasurer may demand that funds be retrieved to restore the Pool cash balance to such level.

Reinvestment of funds from external investments (e.g. California State Local Agency Investment Fund) may be done without the above procedures. The Treasurer's Office may verify telephonically with the Auditor's Office that the agency has one month's payroll expenditures as cash in the Pool exclusive of the redemption of the external investment funds.

The agency's request may be denied or delayed if multiple requests are received or abnormally high disbursements are experienced by the Pool resulting in unusual demands for cash outflow. Any agency request which results in an immediate liquidation of investment securities at a loss will only be honored after the agency has acknowledged and approved to bear the loss incurred. No request can be honored which will adversely effect the stability and predictability of the investments in the Pool.

INVESTMENT EARNINGS APPORTIONMENT AND RATE

Beginning July 1, 2001, the Pool's investment earnings shall be apportioned by the following method. The investment earnings which have been received in cash and accumulated from the beginning to the end of each calendar quarter shall be apportioned to each cash balance account maintained within the Pool. The apportionment of earnings to any particular cash balance account will be in direct proportion of that account's average daily cash balance to the entire Pool's average daily cash balance for that same quarter. For example, if the earnings received for the quarter ending March 31 were \$5,000,000, and if the County General Fund's average daily cash balance were \$10,000,000 and if the entire Pool's average daily cash balance were \$500,000,000, then the amount of earnings to apportion to the County's General Fund would be \$100,000 (calculated as $\$5,000,000 \times \$10,000,000 / \$500,000,000$). Cash balance accounts shall be maintained in and earnings apportionment shall be performed by the Stanislaus County Auditor-Controller's Office. The cash earnings apportionment rate is calculated as the investment earnings received in cash for the quarter divided by the average daily cash balance for the entire Pool times four (4). In the above example, the cash earnings apportionment rate is 4% ($\$5,000,000 / \$500,000,000 \times 4$).

EXEMPTIONS AND AMENDMENTS

Any investment currently held *prior to the adoption of changes to the Investment policy* that does not meet the *newly revised* guidelines of this Policy shall be exempted from the requirements of this policy. Upon that investment's maturity or liquidation, the monies received shall be invested in accordance with this Policy.

This Policy shall be reviewed on an annual basis. Any changes must be prepared by the Treasurer, reviewed and approved for propriety by the Committee and approved by the Stanislaus County Board of Supervisors.

GLOSSARY

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

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

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

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

Coupon: The annual rate of interest that a bond issuer promises to pay the bondholder on the bond's face (or par) value.

Dealer: A dealer acts as a principal in all transactions, buying and selling for his own account.

Delivery Versus Payment: The delivery of securities with an exchange of money for the securities.

Derivatives: Financial instruments with return profiles linked to or derived from the movement of one or more underlying indices or securities. These instruments may include a leveraging factor. Also they include financial contracts based on notional amounts the value of which are derived from underlying indices or securities (such as interest rates, foreign exchange rates, equities or commodities).

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

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions (e.g. small business firms, farmers, farm cooperatives and exporters).

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

GLOSSARY (Continued)

Federal National Mortgage Association (FNMA): FNMA was chartered under the Federal National Association Act in 1938 and is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). FNMA is the largest single provider of residential mortgage funds in the U.S. FNMA is a corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are highly liquid and widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Liquid Asset: A liquid asset is one that can be converted easily and rapidly into cash without a short-term substantial loss in value. Liquid securities have a narrow spread between bid and asked prices at reasonable sizes.

Local Agency Investment Fund: The California pool of local agency assets which is managed by the State Treasurer. Limits apply to each agency's deposit of general fund reserves, however no limits on amount of deposit apply to bond proceeds. Funds are still quite liquid in this pool.

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

Master Repurchase Agreement: A written contract covering all future transactions between the parties to a repurchase agreement which establishes each party's rights in the transactions.

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 (bills, CP, BAs, etc.) are issued and traded.

Portfolio: Collection of securities held by an investor.

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

Repurchase Agreement (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase the securities at a fixed price on a fixed date. The security buyer in effect lends to the security seller cash money for the period of the agreement and the terms of the agreement are structured to compensate the security buyer for this transaction.

GLOSSARY (Continued)

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

Secondary Market: The trading arena of securities subsequent to the initial distribution of those securities.

Securities and Exchange Commission: The Federal Agency created by Congress to protect investors in security transactions by administering securities legislation.

Structured Notes: Notes issued by government sponsored enterprises (such as FHLB and FNMA) and corporations which have imbedded options (e.g. call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. The securities market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the overall yield curve.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance national debt. Most bills are issued to mature in three (3), six (6) or twelve (12) months.

Treasury Bonds: Medium-term interest-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two (2) to ten (10) years.

Uniform Net Capital Rule (SEC Rule 15C3-1): SEC requirement that member firms as well as non-member broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of fifteen (15) to one (1); also called "net capital rule" and "net capital ratio." Indebtedness covers all money owed to a firm including margin loans and commitments to purchase securities. Liquid capital includes cash and assets easily converted into cash.

Yield: The rate of annual income return on an investment expressed as a percentage.

Yield to Maturity: The annual rate of return on invested dollars or cash outflow exclusive of transactional interest (including any purchase with a discount or premium) given the stated interest income and maturity value of the investment as the anticipated cash inflows.