



Office of  
Management and Budget

Standard Operating Procedure/Policy  
Division/Function/Title

SOP # TRE-GN-01-GBL-003

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## 1. Introduction

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Louisville/Jefferson County Metro Government (the "Metro Government") has the authority to invest public funds as set forth in the Louisville/Jefferson County Metro Government Code of Ordinances Section 30.50. This policy will set forth guidelines and restrictions to ensure that these funds are invested in accordance with the Code of Ordinances.

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### **3. Purpose**

The purpose of this policy is to set forth the investment and operational policies for the management of the public funds of the Louisville/Jefferson Metro Government (the "Metro Government").

These policies are designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

It shall be the policy of the Metro Government that all investments and investment practices meet or exceed all statutes governing the investment of public funds in Kentucky and any investment restrictions imposed by bond covenants. Further, accounting for the investments of the Metro Government shall be consistent with guidelines of the Governmental Accounting Standards Board (GASB).

### **4. Scope**

This investment policy is comprehensive and governs the administration and investment management of all those funds held by the Metro Government including funds held by the Revenue Commission. This policy shall apply to such funds from the time of receipt until the time the funds ultimately leave the Metro Government's accounts. These funds include, but are not limited to, all operating funds, bond funds, debt service reserve funds, capital project funds, and all float (collectively, the "Metro Portfolio"). The guidance set forth herein is to be strictly followed by all those responsible for any aspect of the management or administration of these funds.

### **5. Prerequisites**

Any employee granted authority by the CFO to execute trades on behalf of Metro Government must be added as an authorized signer to all qualified institutions as well as the Investment Custodian for Metro Government.

### **6. Responsibilities**

1. The Investment Analyst is responsible for maintenance of the portfolio including but not limited to transaction initiation, maintaining investment files, communication with qualified institutions, and presenting transaction details to the CFO for approval.
2. The CFO is responsible for the operation of the investment program and shall establish written procedures consistent with the investment policy. The CFO is also responsible for appointing authorized signers for all Metro Government accounts to act on their behalf.



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3. The Investment Council is responsible for reviewing the investment policy and presenting recommended revisions as well as ensuring that Metro Government is in compliance with current state laws, ordinances, and Metro Government's written policies.
4. Authorized Approvers are responsible for reviewing transaction details presented by the Investment Analyst when the CFO is not readily available. The Approvers are granted authority by the CFO to grant approval to the Investment Analyst to initiate trade instructions when appropriate.

## **7. Disclaimer**

This internal policy does not constitute a contract and may be changed any time at Management's discretion.

## **8. Procedure/Policy**

### **8.1. Investment Objectives**

The Metro Portfolio shall be managed to accomplish the following hierarchy of objectives:

1. Preservation of Principal – Safety of principal is the foremost objective of the Metro Government's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. Maintenance of Liquidity - The Metro Portfolio shall be managed in such a manner that assures that funds are available as needed to meet the immediate and future operating requirements of the Metro Government, including but not limited to payroll, accounts payable, capital projects, debt service and any other payments.
3. Maximize Return - The Metro Portfolio shall be managed in such a fashion as to maximize the return on investments but, within the context and parameters set forth by objectives 1 and 2 above.
4. Economic Development – Metro Government seeks to promote economic development through various programs and institutions that provide incentives for community reinvestment and financial assistance.

### **8.2 Delegation of Authority**

As directed by Louisville/Jefferson County Metro Government Code of Ordinances ("MGCO") Section 30.50, the CFO shall have responsibility for the operation of the investment program and shall establish written procedures consistent with this investment policy. Procedures should also include explicit delegation of authority to employees, see Appendix B, responsible for investment transactions and shall establish a system of controls to regulate activities of employees who are involved in the execution of investment transactions. No person may engage in any investment transaction except as provided under the terms of this policy and the procedures established by the CFO. The Metro Government may employ Investment Manager(s) to assist in managing some or all of the Metro Portfolio. Such Investment Manager(s) must be registered under the Investment Advisors Act of 1940.



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### 8.3 Investment/Cash Management Council

As required by MGCO Section 32.560, an Investment/Cash Management Council shall be established to serve in an advisory capacity. The Council shall be comprised of the Executive Administrator of Treasury, the Director of the Louisville/Jefferson County Revenue Commission, the Director of Finance, the CFO, and representatives from TARC and JCPS as well as the Chief of Louisville Forward and Director of Kentuckiana Works or their designees. The Council shall be chaired by the CFO. The Council may establish its own rules of procedure, and may retain the services of an investment advisor, registered under the Investment Advisers Act of 1940, to assist it in performing its duties.

The Investment/Cash Management Council may meet monthly and/or quarterly and will be charged with the following responsibilities:

1. review the investment policy annually and recommend applicable revisions to the Mayor of the Metro Government;
2. meet periodically to deliberate such topics as economic outlook, portfolio diversification and maturity structure, cash flow forecasts, and potential risks.; and
3. assure that the Metro Government is in compliance with current state law, the MGCO and the Metro Government's written investment policies.

### 8.4 Standard of Prudence

The standard of prudence to be applied to the investment of the Metro Portfolio shall be the "Prudent Investor" standard, as follows:

*Investments shall be made with care, skill, prudence and diligence under the circumstances then prevailing including, but not limited to, the general economic conditions, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Investment and management decisions respecting individual assets are not to be evaluated in isolation, but rather in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the portfolio.*

The Investment Council and other Metro Government employees and officials involved in the investment process shall have no liability for the credit risk or market price changes for any individual security provided (i) such person has exercised the proper due diligence and acted in accordance with the Kentucky Revised Statutes, this policy and any other written procedures pertaining to the administration and management of the Metro Portfolio; (ii) any negative deviations are reported in a timely fashion to the CFO; and (iii) reasonable and prudent action is taken to control and prevent any further adverse developments.



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## 8.5 Ethics and Conflict of Interest

The Metro Government Ethics Code establishes rules of conduct for Metro Officers (as defined in MGCO Section 21.01). To ensure that personal investment or business transactions do not violate these provisions or any provision of the Ethics Code, Metro Officers must (i) familiarize themselves with the Ethics Code and (ii) carefully scrutinize how their personal interests may affect or be affected by the transactions that are part of the Metro Government's investment process.

Further, to avoid any conflict of interest or the appearance of a conflict, all Metro Government employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Officers, employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal finance or investment positions that could be related to the performance of the Metro Portfolio. Employees and Officers shall refrain from undertaking personal investment transactions with the same broker or account representative with whom business is conducted on behalf of the Metro Government.

## 8.6 Authorized Investments

The Metro Government is authorized by Kentucky law, including Section 66.480 of the Kentucky Revised Statutes to invest and reinvest in the following securities:

### 8.6.1 U.S. Treasury Obligations

Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States Government agency, including but not limited to the U.S. Treasury, Export-Import Bank of the United States, Farmers Home Administration, Government National Mortgage Corporation and Merchant Marine bonds.

### 8.6.2 Federal Agency Obligations

Obligations of any corporation of the United States Government, including but not limited to the Federal Home Loan Mortgage Corporation, Federal Farm Credit Banks, Federal Agricultural Mortgage Corporation, Bank for Cooperatives, Federal Intermediate Credit Banks, Federal Land Banks, Federal Home Loan Banks, Federal National Mortgage Association, and the Tennessee Valley Authority, provided the corporation is rated 'AAA' at the time of purchase by at least one Nationally Recognized Statistical Rating Organization (NRSRO).

The Metro Government may purchase U.S. Treasury and Federal Agency Obligations under a repurchase agreement provided that the following conditions are met:

1. the contract is fully secured by deliverable U.S. Treasury or Federal Agency obligations as described in (A) and (B) above, having a market value as of each valuation date of at least one hundred two percent (102%) of the amount of the repo plus accrued interest;



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2. a master repurchase agreement or specific written, repurchase agreement governs the transaction;
3. the securities are held by the Metro Government or by a independent third party custodian acting solely as agent for the Metro Government, provided such third party is not the seller under the repurchase agreement;
4. for repurchase agreements with terms to maturity of one business day, the securities may be held by the seller under the repurchase agreement provided that the securities are (i) held free and clear of any lien, (ii) in the name of the Metro Government, (iii) segregated from the securities of others, and (iv) secured in a way that complies fully with the requirements of the Government Securities Act of 1986 related to hold-in-custody transactions;
5. a perfected first security interest under the Uniform Commercial Code in accordance with the book entry procedures prescribed at 31 C.F.R. 306.1 et seq. of 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Metro Government;
6. for repurchase agreements with terms to maturity of greater than one business day, the value of the collateral securities will be continuously monitored and, if the value of the collateral falls below the amount required as of any valuation date, then additional cash and/or acceptable securities must be delivered to the Metro Government's custodian within one business day;
7. the Metro Government will enter into repurchase agreements only with (i) primary Government securities dealers who are members of the National Association of Securities Dealers that report daily to the Federal Reserve Bank of New York, (ii) banks, or savings and loan associations subject to regulation of capital standards by any state or federal regulatory agency, or (iii) diversified securities broker-dealers who are members of the National Association of Securities Dealers and subject to regulation of capital standards by any state or federal regulatory agency;
8. the seller under the repurchase agreement meets the following criteria: (i) has a short-term debt rating of 'A-1' or higher from Standard & Poor's, (ii) has a long-term credit rating of at least "AA" by Standard & Poor's or the equivalent by another NRSRO, (iii) has been in operation for at least 5 years, and (iv) is reputable among market participants; and
9. the repurchase agreement, including an open repo, has a term to maturity of no greater than ninety (90) days.

### 8.6.3 Commercial Paper

Unsecured short-term debt of U.S. corporations may be purchased if the following conditions are met:





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1. the maturity is no greater than one-hundred eighty days (180) days;
2. the issuing corporation has a short-term debt rating of no less than 'A2' (or its equivalent) at the time of purchase by all NRSROs that rate the issuer (under all circumstances, a minimum of two short-term debt ratings must be available);
3. the issuing corporation, or its guarantor, has a net worth of at least \$50 million; and the net income of the issuing corporation, or its guarantor, has averaged \$3 million per year for the previous five years;
4. the amount invested in any single issuing corporation does not exceed five percent (5%) of the Metro Portfolio (based on book value on the date of acquisition); and
5. a written credit analysis is prepared for any investment in commercial paper of an issuer that is on "negative outlook" or "negative credit watch" explaining why the investment does not pose an unreasonable credit risk to the Metro Portfolio.

Commercial paper may be acquired from authorized broker/dealers or directly from an eligible issuer.

#### 8.6.4 Bankers' Acceptances

Bankers' Acceptances meeting the following terms and conditions may be purchased, provided:

1. the maturity is no greater than two hundred-seventy days (270) days;
2. the securities are eligible for purchase by the Federal Reserve System;
3. the issuing corporation has a short-term debt rating of no less than 'A-1' (or its equivalent) at the time of purchase by at least two NRSROs that rate the issuer; and
4. the amount invested in any single bank does not exceed five percent (5%) of the Metro Portfolio (based on book value on the date of acquisition).

#### 8.6.5 Collateralized/Insured Certificates of Deposit

Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4). Certificates of deposit will be placed directly with depository institutions (no third parties or money brokers will be used).



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**8.6.6 Uncollateralized Certificates of Deposit**

Negotiable certificates of deposit issued by domestic banks and domestic offices of foreign banks may be purchased, provided:

1. the maturity is no greater than one year; and
2. the issuing bank has a short-term debt rating of no less than 'A-1' (or its equivalent) at the time of purchase by at least two NRSROs that rate the issuer.

**8.6.7 Municipal Obligations**

The Metro Government may invest in bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities; and securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, provided:

1. the issuing entity has a long-term debt rating of no less than 'AA' (or its equivalent) at the time of purchase by all NRSROs that rate the issuer; and
2. the issue is not currently in default and has not been in default for more than ninety days, and the issuer has not been in default for more than ninety days in the payment of any part of principal or interest of any stock, bond, note or other evidence of indebtedness within the preceding twenty fiscal years.

**8.6.8 Money Market Mutual Funds**

Shares in open-end, no-load money market mutual funds may be purchased, provided:

1. the fund is registered under the Federal Investment Company Act of 1940 and operated in accordance with 17 C.F.R. 270.2a-7;
2. the fund invests exclusively in securities specifically permitted under this investment policy,
3. the fund is rated 'AAAm' or 'AAAm-G' by Standard & Poor's Corporation, or equivalent by another NRSRO;
4. the management company of the investment company has been in operation for at least five (5) years; and
5. shares of the fund are properly registered for sale in the Commonwealth of Kentucky.





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**8.7 Portfolio Diversification**

The Metro Government will diversify the overall portfolio to eliminate the risk of loss from an overconcentration of assets in a specific class of security, a specific maturity, and/or a specific issuer. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each eligible security is as follows:

U.S. Treasury Obligations	100% maximum
Federal Agency Obligations	100% maximum
Federal Agency Obligations (Callable)	50% maximum
Repurchase Agreements	100% maximum
Commercial Paper	*20% maximum
Bankers' Acceptances	*20% maximum
Collateralized/Insured Certificates of Deposit	50% maximum
Uncollateralized Certificates of Deposit	*20% maximum
Municipal Obligations	*10% maximum
Money Market Mutual Funds	100% maximum

\* The combined amount of commercial paper, bankers' acceptances, uncollateralized certificates of deposit, and municipal obligations shall not exceed twenty percent (20%) of the total book value of the portfolio at the date of acquisition.

The Metro Portfolio will be further diversified to limit the exposure to any one issuer. No more than 5% of the Metro Portfolio will be invested in the securities of any single issuer with the following exceptions:

U.S. Treasury	100% maximum
Each Federal Agency	35% maximum
Each Repurchase Agreement Counterparty	25% maximum
Money Market Mutual Funds	50% maximum

**8.8 Maximum Maturity**

To the extent possible, Metro will attempt to match investments with anticipated cash requirements. Accordingly, the portfolio will be structured in a manner that ensures sufficient cash is available to all operating requirements which might be reasonably anticipated. Selection of investment maturities must be consistent with the cash requirements of the Metro Government in order to avoid the forced sale of securities prior to maturity. Nonetheless, investment will be restricted as follows:

1. No idle funds are to be invested for a maturity of greater than 5 years from the date of purchase.
2. To control the volatility of the Metro Portfolio, the effective duration of the Portfolio will have a general target of 2.5 years.
3. Proceeds from the sale of bonds issued by the Metro Government will be invested in compliance with the specific requirements of the bond covenants without further restriction as



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to the maximum term to maturity of securities purchased. However, in no case will bond proceeds be invested in securities not authorized by this policy or securities with a term to maturity that exceeds the expected disbursement date of those funds.

### 8.9 Investment of Bond Proceeds

The Metro Government intends to comply with all applicable sections of the Internal Revenue Code of 1986, Arbitrage Rebate Regulations and bond covenants with regard to the investment of bond proceeds. Accounting records will be maintained in a form and for a period of time sufficient to document compliance with these regulations.

### 8.10 Variable Rate Notes

The use of variable rate notes (VRNs) issued by Federal Agencies of the U.S. Government is considered to be prudent in the management of the Metro Portfolio provided that the following criteria are met:

1. the final maturity (at the time of purchase) is no greater than three years;
2. the rate on the VRN resets no less frequently than quarterly;
3. the rate on the VRN resets with a frequency that produces a close tracking with money market rates;
4. the VRN is indexed to a money market rate such as Federal Funds, the 3-month Treasury Bill or LIBOR, that correlates very highly (95% or greater) with overall changes in money market rates even under wide swings in interest rates;
5. any cap on the interest rate is at least 15.00% (1500 basis points) higher than the coupon at time of purchase;
6. no more than ten percent (10%) of the portfolio will be invested in variable rate notes

### 8.11 Prohibited Investments and Investment Practices

The Metro Government is expressly prohibited from the following investments and investment practices. This is not an exclusive list.

1. Purchases on margin or short sales (selling a specific security before it has been legally purchased);
2. Investment in reverse repurchase agreements;
3. Borrowing funds for the sole purpose of reinvesting the proceeds of such borrowing;
4. Investment in complex derivatives such as range notes, dual index notes, inverse floating rate notes and leveraged notes, or notes linked to lagging indices or to long-term indices.



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5. Collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICS); or
6. Any security not specifically permitted by this investment policy.

### 8.12 Monitoring and Adjusting the Portfolio

Those responsible for the day-to-day management of the Metro Portfolio will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments, and will adjust the portfolio as necessary to meet the investment objectives listed above. It is recognized and understood that this non-speculative active management of portfolio holdings may cause a book loss on the sale of an owned investment. It is the policy of the Metro Government to charge any such loss against the interest income account during the month in which the loss was booked. Losses shall be allocated to the various funds based on the proportionate fund equity in the total portfolio during the month in which the sale occurred.

### 8.13 Selection, Approval of Brokers, Qualified Financial Institutions

The Investment personnel will establish and maintain a list of eligible brokers, dealers, and banks with which investment transactions can be executed (to be designated as "Qualified Institutions"). The list of Qualified Institutions will be reported to the Investment/Cash Management Council annually with quarterly updates of any changes.

Only firms meeting the following requirements will be eligible to serve as Qualified Institutions:

1. "primary" dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
2. capital of no less than \$10,000,000;
3. registered as a dealer under the Securities Exchange Act of 1934;
4. member of the National Association of Securities Dealers (NASD);
5. registered to sell securities in the Commonwealth of Kentucky; and
6. the firm and assigned broker have been engaged in the business of effecting transactions in U.S. Government and agency obligations for at least five (5) consecutive years.

Firms designated as Qualified Institutions will be required to resubmit documentation every 2 years to maintain their qualified status. Those wishing to be considered must submit financial statements and a completed "Broker/Dealer Request for Information" (as detailed in Appendix A to this policy) which confirms receipt and review of the Metro Government Investment Policy by those persons assigned to the Metro Government account. Once deemed qualified, that institution will be placed on the same renewal schedule as all other institutions regardless of the timeline.



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#### 8.14 Competitive Selection of Investment Instruments

It is the policy of the Metro Government to transact all securities purchases and sales through a formal and competitive process requiring the solicitation from all Qualified Institutions. When purchasing a security, Metro Government will accept the offer which (a) provides the highest rate of return within the maturity required; and (b) optimizes the investment objective of the overall portfolio. When selling a security, the Metro Government will select the bid that generates the highest sale price.

Primary fixed priced federal agency offerings may be purchased from Qualified Institutions without competitive solicitation if it is determined that no agency obligations meeting the Metro Government's requirements are available in the secondary market at a higher yield.

It will be the responsibility of the Investment Analyst II to produce and retain a record of each transaction. The record should include the approval from the CFO, correspondence from the institution offering the winning bid, and the official trade ticket provided by the winning institution. Approval from the CFO is not needed in instances of funds being rolled over to securities of the same nature.

In making investment decisions, all other things being equal and subject to compliance with any applicable Internal Revenue Code requirements for bond proceeds, investment in corporations and financial institutions doing business in the Commonwealth of Kentucky will be given preference over other investment options.

#### 8.15 Safekeeping and Custody

All investment securities purchased by the Metro Government or held as collateral on either deposits or investments shall be held in third-party safekeeping at a financial institution (to be designated as the "Custodian") qualified to act in this capacity. All transactions will be conducted on a delivery versus payment basis. All securities held for the Metro Government account will be held free and clear of any lien. The Custodian shall issue a safekeeping receipt to the Metro Government listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the custodian will also provide reports which list all securities held for Metro, the book value of holdings and the market value as of month-end.

Appropriate Metro officials and representatives of the Custodian responsible for, or in any manner involved with, the safekeeping and custody process of the Metro Portfolio shall be bonded in such a fashion as to protect the Metro Government from losses from malfeasance and misfeasance.

#### 8.16 Performance Standards

The investment portfolio shall be designed and managed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the Metro Government. Short-term funds and other funds that must maintain a high degree of liquidity will be compared to the return on the three-month U. S. Treasury Bill. Core portfolio investments and other funds that have a longer-term investment horizon will be compared to an index of U.S. Government securities having a similar duration or other appropriate benchmark.



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### 8.17 Reporting

On a quarterly basis, the Investment personnel will provide the CFO with various reports which may include the following; (i) a listing of the existing portfolio in terms of investment securities, amortized book value, maturity date, return, market value and other features deemed relevant and (ii) a listing of all transactions executed during the month. The market values presented in these reports will be consistent with accounting guidelines in GASB Statement 31 pertaining to the valuation of investments and the treatment of unrealized gains/losses.

The Investment personnel shall prepare and submit to the Investment/Cash Management Council a quarterly investment report that may include the following: (i) portfolio composition, (ii) maturity distribution and effective duration, (iii) recent market conditions, economic developments and anticipated investment conditions, (iv) the investment strategies employed in the most recent quarter, (v) portfolio return (on a market value basis) versus appropriate benchmarks; and (vi) any areas of policy concern warranting possible revisions of current or planned investment strategies. If the issuer of any obligation held in the Metro Portfolio at month-end is on "negative outlook" or "negative credit watch" the quarterly report will describe the credit condition and assess the risk to the Metro Government.

### 8.18 Investment Policy Adoption

This policy is adopted this May 20, 2016. This policy is not intended to impair the power of Metro Government, as contemplated by KRS 66.480(5), to hold funds in deposit accounts with banking institutions as otherwise authorized by law. Securities purchased prior to the effective date of this policy that do not meet the restrictions contained herein, may be held to maturity if they are in compliance with all applicable statutory requirements.

## 9. References

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Louisville/Jefferson County Metro Government Code of Ordinances Section 32.560

Louisville/Jefferson County Metro Government Code of Ordinances Section 21.01

Kentucky Revised Statutes 66.480

Kentucky Revised Statutes 41.240(4)

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## 10. Definitions

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Asset-Backed Securities – Securities supported by pools of installment loans, leases or by pools of revolving lines of credit.

Bankers' Acceptance – A draft or bill of exchange created as a result of an international trade transaction accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. A Bankers' Acceptance is an irrevocable primary obligation of the accepting bank and a contingent obligation of the drawer and of any endorser whose names appear upon it.

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.

Book Value – The price paid for a particular asset, adjusted for amortization of any premium or accretion of any discount over the term of the investment. The book value is the amount included on the balance sheet.

Broker – A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides. The broker does not own the security position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

Certificate of Deposit (CD) – A time deposit with a specific maturity evidenced by a certificate issued by a bank.

Collateral – Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank 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 – A short-term, unsecured promissory note issued by corporations for a maturity specified by the purchaser, from 1 to 366 days and sold primarily on a discount basis. Issues are marketed either through dealers or directly by the issuer. Direct issuers and dealers will generally provide a bid to repurchase these securities on the secondary market.





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**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.

**Discount** – The difference between the cost price of a security and its value at maturity when quoted at lower than par value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**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.

**Diversification** – Dividing investments among a variety of securities which offer independent returns.

**Duration** – The measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on weighted average of the present values for all cash flows. Duration is measured in years.

**Face Value** – The dollar value of a security. For bonds, it is the amount paid to the holder at maturity. Also known as “par value.”

**Liquidity** – a liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

**Long-Term** – For investing, a security that matures in one year or longer.

**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 is trading and could presumably be purchased or sold.

**Maturity** – The date upon which the principal or stated value of an investment becomes due and payable.

**Premium** – The difference between the higher price paid for a fixed-income security and the security’s par amount at issue.

**Repurchase Agreement** – A financial contract through which a holder of securities sells securities to an investor with an agreement to repurchase them at original cost plus interest on a future date. The





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repurchase agreement buyer, in effect, lends the seller money for the period of the agreement and the terms of the agreement are structured to compensate him for this loan. Repurchase agreements are illiquid, not negotiable, and there is no secondary market. In an emergency, a term repurchase agreement seller may be willing to break an agreement, but is not required to do so. Repurchase agreements are subject to counter party risk which is risk that a seller will be unable to repurchase a security.

Security – An instrument representing ownership (stocks/equities), a debt agreement (bonds), or the rights to ownership (derivatives). It is assigned a value and traded. Examples of a security include a note, stock, bond, option, or virtually any other financial asset.

Short-term – As an investment, short term is a security that matures in one year or less.

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

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