UADA Policy 306.2
Operating Funds Investment Policy

Purpose

Pursuant to UA Systemwide Policies and Procedures (UASP) 310.1, the purpose of this policy is to set general guidelines that provide a clear understanding as to who has the authority to set investment objectives, strategy, guidelines, and execute investment transactions on behalf of the University of Arkansas System Division of Agriculture (UADA) relative to investable operating funds, as further defined in this policy.

Policy

Section 1 – Authority, Responsibilities, and Definition of Operating Funds

(A) Authority - In accordance with UASP 310.1, the University of Arkansas System Chief Financial Officer (System CFO) has been vested with investment authority by the University of Arkansas Board of Trustees as guided by the Systemwide Investment Advisory Committee (SIAC), consistent with Board Policy 470.2. Further, per UASP 310.1 each campus or unit of the University of Arkansas System must develop its own investment policy, which is reviewed by the SIAC.

(B) UADA Investment Advisory Committee – This policy establishes the UADA Investment Advisory Committee (IAC). The IAC shall consist of up to four members as follows: (1) the Associate Vice President for Finance and Administration; (2) all Assistant Vice Presidents for Finance and Administration; and (3) the Cash and Treasury Manager. Further, the System CFO may designate others to participate as part of the IAC.

(C) Responsibilities of the IAC – The IAC shall be charged with the following responsibilities: (1) review and update of this policy at least annually as driven by changes in applicable laws, economic and market conditions, and/or current cash flow needs of UADA; (2) monitoring of investments to ensure proper controls are in place to maintain the integrity and security of UADA's investment portfolio; and (3) monitoring of UADA's compliance with written investment policies, including applicable board policies and systemwide policies and procedures.

(D) UADA Investment Signatory Authority and Investment Support Personnel – The Associate Vice President for Finance and Administration shall serve as the signatory authority to enact all investment directives on behalf of UADA. As designated by the Associate Vice President for Finance and Administration, one or more Assistant Vice President for Finance and Administration may be given signatory authority to enact investment directives on behalf of UADA in a backup capacity. Further, the Cash and Treasury Manager and one or more Assistant Vice President for Finance and Administration is granted the authority to complete any necessary banking transactions to complete investment directives approved by the Associate Vice President for Finance and Administration. Such banking actions may include, but are not limited to, transfers of cash between authorized bank accounts, wire transfer or initiation of automated clearinghouse banking transactions to fund investment accounts, or other banking transactions required to execute investment directives.

(E) Responsibilities of Signatory Authority and Investment Support Personnel – Authorized signatory authorities and investment support personnel shall be charged with the following responsibilities: (1) ensuring investment directives are completed and executed consistent with IAC objectives and priorities; (2) ensuring that investment directives and related banking transactions are completed accurately and timely; (3) ensuring that investment account funding is appropriately confirmed once initiated; and (4) ensuring appropriate and complete reporting is provided in a timely fashion by appropriate institutions for placed investments.

(F) Operating Funds Defined – For purposes of this policy, operating funds are defined as cash, cash equivalents, or funding capacity that may be converted to cash available for general UADA operations. Operating funds are not endowments established for UADA's benefit with the Agricultural Development Council of the University of Arkansas Foundation, the Arkansas 4-H Foundation, or institutionally held endowments. Endowment funds are separately managed by the University of Arkansas Foundation, the Arkansas 4-H Foundation, or in the case of institutionally held endowments through investment vehicles made available to UADA by the University of Arkansas Foundation.

Section 2 – Investment Objectives, Portfolios, and Asset Allocation

(A) Investment Objectives – Investment objectives applicable to operating funds, in order of priority, are as follows:

- **Safety of Principal** – As the foremost objective of the investment program, this objective dictates that investment decisions shall be undertaken in a manner that ensures preservation of capital in the overall portfolio.
- **Maintenance of Liquidity** – UADA's funds shall remain sufficiently liquid to enable all operating requirements to be met, which might be reasonably anticipated. These operating requirements include but are not limited to sufficient cash funds to meet payroll, accounts payable, capital projects, and any other recurring obligations.
- **Return on Investment** – UADA's funds shall be managed with the objective of attaining a market rate of return (or higher) throughout all applicable budgetary and economic cycles, considering UADA's risk constraints and cash flow characteristics of the investment portfolios maintained.

(B) Investment Portfolios - Maintenance of adequate liquidity to meet the cash flow needs of UADA is essential. Accordingly, to the extent possible, UADA's funds will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Whenever practical, selection of investment maturities will be consistent with the known cash requirements of UADA to minimize the forced sale of securities prior to maturity. Assets shall be categorized as follows, based on expected liquidity needs and purposes:

- **Tier 1 Portfolio** – Assets categorized as Tier 1 shall be invested in permitted investments maturing in twelve (12) months or less. Because cash flow requirements may regularly vary and be difficult to accurately forecast, a portion of this portfolio shall be continuously invested in readily available funds such as money market accounts, bank deposits, or overnight repurchase agreements.
- **Tier 2 Portfolio** – Assets categorized as Tier 2 shall be invested in permitted investments with a stated maturity of not more than five (5) years from the settlement date of purchase. To appropriately manage volatility, a duration target of up to 2 ½ years shall be determined for any assets categorized in this portfolio.
- **Tier 3 Portfolio** – Assets categorized as Tier 3 shall be invested in permitted investments with a stated maturity of not more than ten (10) years from the settlement date of purchase. To appropriately manage volatility, a duration target of up to 4 ½ years shall be determined for any assets categorized in this portfolio.
- To the extent available, assets categorized in Tier 2 or Tier 3 may be invested in external investment pools sponsored by the Board of Trustees of the University of Arkansas.

(C) Asset Allocation – The following allocation guidelines have been established to achieve UADA's overall operating funds investment objectives:

Portfolio	Minimum	Preferred Range	Maximum
Tier 1	25%	25% - 85%	100%
Tier 2	0%	15% - 50%	50%
Tier 3	0%	5% - 25%	25%

The asset allocation ranges have been defined to reflect the cyclical nature of the investable operating funds and cash flow needs, with safety of principal and maintenance of liquidity the driving investment objectives. In allocating funds, the IAC will consider the risk of the aggregate portfolio in addition to the risk of the individual tiers. At the discretion of the IAC, the allocations to individual tiers may be changed periodically in response to market conditions or anticipated liquidity needs.

Section 3 – Standards, Ethics, Permitted Investments, Diversification, and Collateralization

(A) Standard of Prudence – The IAC will perform their duties in a manner consistent with the standard of a "prudent investor" – "In making investments, the fiduciaries shall exercise the judgement and care, under the circumstances then prevailing, which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, considering probable safety of capital as well as probable income." UADA's investment manager and designees, exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price change provided these deviations are reported in a timely manner to the IAC and that reasonable and prudent action is taken to control adverse developments.

(B) Ethics and Conflicts of Interest – The IAC and those responsible for and involved with the investment process shall seek to act responsibly as custodians of the public trust. They will refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

(C) Permitted Investments – UADA is authorized to invest in the following types of securities under this policy:

Preferred Permitted Investments

- **Insured & Collateralized Bank Deposits** – Interest bearing time certificates of deposit, savings accounts, or deposit accounts fully insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA) or collateralized in accordance with UADA policy.
- **External Investment Pools** – Any external investment pool sponsored by the Board of Trustees of the University of Arkansas or the University of Arkansas Foundation, Inc.

Other Permitted Investments

- **U.S. Treasury & Government Guaranteed** – U.S. Treasury obligations, and obligations the principal and interest of which are backed or guaranteed by the full faith and credit of the U.S. government.
- **Federal Agency / Government Sponsored Enterprise Debt** – Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. federal agency, instrumentality or government-sponsored enterprise (GSE).
- **Municipals** – Obligations issued or guaranteed by any state, territory or possession of the United States, political subdivision, public corporation, authority, agency board, instrumentality or other unit of local government of any U.S. state or territory.
- **Corporate Notes** – U.S. dollar denominated corporate notes, bonds or other debt obligations issued or guaranteed by a domestic or foreign corporation, financial institution, non-profit or other entity, as permitted by state and federal laws.
- **Commercial Paper** – U.S. dollar denominated commercial paper issued or guaranteed by a domestic or foreign corporation, company, financial institution, trust or other entity.
- **Bankers' Acceptances** – Bankers' acceptances issued, drawn on or guaranteed by a U.S. bank or U.S. branch of a foreign bank.

- **Negotiable Certificates of Deposit** – Negotiable certificates of deposit issued by banks organized under the laws of this state or by national banks organized under the laws of the United States.
- **Repurchase Agreements** – Repurchase agreements that meet the following requirements:
    - Governed by a written SIFMA Master Repurchase Agreement, which specifies securities eligible for purchase and resale, and which provides the unconditional right to liquidate the underlying securities should the counterparty default or fail to provide full timely repayment.
    - Counterparty is a Federal Reserve Bank, a Primary Dealer as designated by the Federal Reserve Bank of New York or a nationally chartered commercial bank.
    - Securities underlying repurchase agreements are delivered to a third-party custodian under a written custodial agreement that must be of deliverable or tri-party form. Securities must be held in UADA's custodial account or in a separate account in the name of UADA.
    - Acceptable underlying securities include only securities that are direct obligations of, or that are fully guaranteed by the United States, an agency of the United States or a United States government sponsored enterprise, including U.S. agency issued mortgage-backed securities.
    - Underlying securities must have an aggregate current market value, including accrued interest, of at least 105% of the purchase price plus current accrued price differential at the close of each business day.
    - The term of any repurchase agreement transaction must be 90 days or less.
- **Money Market Funds** – Shares in open-end and no-load money market funds, provided such funds are registered under the Investment Company Act of 1940 and operate in accordance with Rule 2a-7. Before investing in any mutual fund, UADA shall obtain a copy of the fund's prospectus and review permitted investments, fees and management structure. At no time shall UADA own more than 20% of the total net assets of the mutual fund series.
- **Fixed Income Mutual Funds and ETFs** – Shares in open-end and no-load fixed-income mutual funds or exchange-traded funds (ETFs) whose underlying investments would be permitted for purchase under this policy and all its restrictions.

The preferred permitted investments outlined above provide adequate options to meet the stated objectives of this policy and UADA's cash flow needs. In making the decision to place investments outside the preferred permitted options, the IAC shall specifically consider the risks associated with the investment type, including the expertise required to effectively and responsibly manage these types of investments.

(D) Prohibited Investments - The following investments are not permitted for any investment portfolio without prior approval of the IAC:

- Trading for speculation.

- Derivatives (other than callables and traditional floating or variable-rate instruments).
- Currency, equity, index, and event linked notes (e.g. range notes) or other structures that could return less than par at maturity.
- Convertible, high yield and non-U.S. denominated debt.
- Short sales.
- Use of leverage.
- Futures and options.
- Equities, commodities, currencies, and hard assets.

Regardless of the prohibited investments specified in this policy that are subject to approval by the IAC, under no circumstances shall the IAC knowingly permit investment in securities or instruments that are prohibited by Arkansas law. Further, in determining if investment prohibited by this policy should be allowed, the IAC shall specifically consider the risks associated with the investment type, including the expertise required to effectively and responsibly manage these types of investments.

(E) Portfolio Diversification – UADA's funds shall be diversified to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. The maximum percentage of UADA's investable operating funds permitted in preferred permitted investments based on book value at the date of acquisition is as follows:

<u>Preferred Permitted Investments</u>

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement	Maximum Maturity
Insured & Collateralized Bank Deposits	75%	75%	None, if fully insured or collateralized.	2 Years
External Investment Pools	50%	50%	N/A	N/A

<u>Other Permitted Investments</u>
To the extent the IAC approves investment in securities that this policy designates as an "other permitted investment," the IAC shall establish a sector maximum, per issuer maximum, minimum ratings requirement, and maturity maximum for each permitted investment type. These maximums must be established prior to placement of funds in the investment type and must take into account UADA's overall investment objectives and investment portfolios at the time of placement to ensure diversification goals are met.

(F) Collateralization of Bank Deposits – Consistent with UADA Policy 305.1, all cash and other bank deposits must be insured or collateralized, including non-negotiable certificates of deposit. To the extent excess operating funds are invested in these instruments, the insurance and collateralization of deposits will be governed by requirements outlined in that policy.

Section 4 – Selection of Investment Instruments, Broker/Dealers and Banks, and Investment Advisors

(A) Selection of Investment Instruments – Purchases and sales of preferred permitted investments will be transacted through a formal and competitive process, requiring the solicitation of at least three bids/offers. In the case of bank deposits, including the purchase of time deposit certificates of deposit, market quotes will be obtained electronically. UADA will accept the bid that offers the highest rate of return within the maturity required and optimizes investment objectives consistent with this policy in the sole discretion of the Associate Vice President for Finance and Administration and may include purchase or sale of one more of the preferred permitted investments in part or whole. Purchases and sales of other permitted investments will be transacted only with designated broker/dealers through a formal and competitive process requiring the solicitation and evaluation of at least three bids/offers, taking into consideration current market conditions. Electronic bids will be accepted. UADA will accept the bid which, in the sole judgment of the university's investment manager or his/her designee: (a) offers the highest rate of return within the maturity required; (b) optimizes the investment objective of the overall university's funds, including diversification requirements. When selling security, UADA will select the bid that generates the highest sale price.

(B) Selection of Broker/Dealers and Banks – The IAC will establish and maintain a list of eligible brokers, dealers, and banks with which investment transactions can be made. As determined by the IAC, the list may not include any entities classified as broker/dealers and may only be comprised of a list of eligible banks given the preferred permitted investments outlined in this policy. All financial institutions will be selected by creditworthiness (minimum capital requirement of $10,000,000) and at least five years of operation. Qualified broker/dealers will be limited to "primary" dealers and other dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). Before a broker/dealer can conduct investment business with UADA, it must confirm in writing that it has received and reviewed this policy. Further, the broker/dealer must complete and submit a "Broker/Dealer Request for Information." The following information will be required: (a) Audited financial statements, (b) Regulatory reports on financial condition, (c) Proof of Financial Institution Regulatory Authority (FINRA) certification and of state registration, (d) Any additional information requested by the university's investment manager in evaluating the creditworthiness of the institution, and (e) Evidence of being in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years. To the extent the IAC designates broker/dealers, this shall be done on an annual basis. If an external, third-party investment advisor is engaged, the university's investment manager may designate responsibility for maintaining the list of approved broker/dealers to the investment advisor.

(C) Engagement of Third-Party Investment Advisors – UADA may engage one or more qualified firms to provide investment advisory services. Investment advisory firms who desire to provide investment management services will be provided with a current copy of UADA's investment policy. Before an organization can provide investment services, it must confirm in writing that it has received and reviewed the UADA's investment policy. Only firms meeting the following requirements will be eligible to serve as investment advisor for UADA:

- Registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940 or exempt from registration
- Must have and provide Form ADV, Part II, A and B to the university
- Must be registered to conduct business in the state of Arkansas
- Any firm engaged by the UADA to provide investment services shall: (a) Maintain a list of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the state of Arkansas, (b) Provide monthly reports of transactions and holdings to the university's investment manager, and (c) Provide quarterly performance reports that display investment performance in comparison UADA's investment objectives as outlined in this policy.

The provisions of this section apply specifically to investment advisors engaged directly by UADA and do not impose additional requirements on investment advisors engaged to manage external investment pools organized by the Board of Trustees of the University of Arkansas or the University of Arkansas Foundation, Inc. UADA's participation in these external investment pools come with the understanding that appropriate vetting of investment managers has taken place and reporting will be supplied by investment managers engaged to manage these pools consistent with the criteria outlined in this section.

Section 5 – Safekeeping and Custody, Internal Control, and Reporting

(A) Safekeeping and Custody - All investment securities purchased by UADA or held as collateral on deposits or investments shall be held by UADA or by a third-party custodial agent that may not otherwise be counterparty to the investment transaction. All securities in UADA's funds will be held in the name of UADA and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs.-payment basis. The custodial agent shall issue a safekeeping receipt to UADA listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the custodial agent will provide reports that list all securities held for UADA, the book value of holdings and the market value as of month-end. Representatives of the custodial agent responsible for, or in any manner involved with, the safekeeping and custody process of UADA shall be bonded in such a manner as to protect the university from losses from malfeasance and misfeasance. Original copies of non-negotiable certificates of deposit and confirming copies of all other investment transactions must be delivered to UADA or its custodial agent.

(B) Internal Control – The Cash and Treasury Manager, in consultation with the Associate and Assistant Vice Presidents for Finance and Administration, as applicable, shall establish a framework of internal controls governing the administration and management UADA's investments. Such controls shall be designed to prevent and control losses of monies arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by any personnel. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

(C) Reporting – The Cash and Treasury Manager shall prepare quarterly reports in the format dictated by the Associate and Assistant Vice Presidents for Finance and Administration providing relevant details regarding investment balances, performance, maturity date, and other information as deemed necessary for the purpose of providing executive management and the IAC insight and transparency into UADA's investment portfolios and investment performance. To the extent UADA engages an investment adviser as described in Section 4 (C) of this policy, the external investment advisor shall prepare and submit to the IAC a "Monthly Investment Report" that summarizes (i) recent market conditions, economic developments, and anticipated investment conditions, (ii) the investment strategies employed in the most recent quarter, (iii) a description of all securities held in investment portfolios at month end, (iv) the total rate of return for the quarter and year-to date versus appropriate benchmarks, and (v) any areas of policy concern warranting possible revisions to current or planned investment strategies. The market values presented in these reports will be consistent with GASB account guidelines pertaining to the valuation of investments and the treatment of unrealized gains/losses. This report in part or in whole shall be provided to executive management on a quarterly basis with the purpose of providing insight and transparency into UADA's investment portfolios and investment performance.

Section 6 – Glossary of Terms

Accrued Interest: Interest earned, but which has not yet been paid or received.

Ask Price: Price at which a broker/dealer offers to sell a security to an investor. Also known as "offered price."

Amortized Book Value: The recorded amount of a security, adjusted for any applicable amortization of premium or discount. Eventually, once all amortization has been recorded, the amortized value of a security will equal its face value.

Arbitrage Rebate Regulations: The Internal Revenue Code of 1986 requires that certain earnings on investments of tax-exempt bond proceeds be paid to the United States. The amount that must be rebated is based on the difference between the amount actually earned on investments and the amount that would have been earned if those investments had a yield equal to the yield on the issue.

Bankers' Acceptance: 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.

Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Bid Price: Price at which a broker/dealer offers to purchase a security from an investor.

Bond: Financial obligation for which the issuer promises to pay the bondholder (the purchaser or owner of the bond) a specified stream of cash flows including periodic interest payments and a principal repayment.

Broker: Brings buyers and sellers together for a commission.

Broker/Dealer: A person or firm in the business of buying and selling securities, operating as both a broker and a dealer, depending on the transaction. A brokerage acts as a broker (or agent) when it executes orders on behalf of clients, whereas it acts as a dealer (or principal) when it trades for its own account.

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

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.

Commercial Paper: An unsecured promissory note with a fixed maturity no longer than 270 days. Public offerings are exempt from SEC regulation.

Corporate Notes: Unsecured promissory notes issued by corporations to raise capital.

Counterparty: The other party in a two-party financial transaction.

Counterparty Risk: Refers to the risk that the other party to a transaction will fail in its related obligations. For example, the bank or broker dealer in repurchase agreement.

Credit Risk: Potential that a borrower or counterparty will fail to fulfill an obligation.

Custodial Bank: A firm that holds securities and other assets in electronic or physical form for safekeeping so as to minimize the risk of their theft or loss.

Dealer: A firm in the business of buying and selling securities for their own account. A dealer is defined by the fact that it acts as principal in trading for its own account, as opposed to a broker who acts as an agent in executing orders on behalf of its clients.

Delivery versus Payment: Delivery of securities with an exchange of money for the securities.

Depository Bank: A for-profit or non-profit financial organization that takes money from clients and places it in any of a variety of deposit or investment vehicles for the benefit of both the client and the organization.

Derivatives: A contract between two or more parties whose value is based on an agreed-upon underlying financial asset, index or security such as bonds, commodities, currencies, interest rates, market indexes and stocks.

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

Duration: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

Federal Agency: Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets, also referred to as government sponsored enterprises or GSEs. The largest are Ginnie Mae, Fannie Mae, Freddie Mac, Federal Home Loan Banks, Federal Farm Credit Bank and Tennessee Valley Authority.

Federal Deposit Insurance Cooperation (FDIC): Federal agency that insures deposits at commercial banks, currently to a limit of $250,000 per depositor per bank.

Financial Industry Regulatory Authority (FINRA): A self-regulatory organization under the Securities Exchange Act of 1934, which is responsible for regulatory oversight of all securities firms that do business with the public.

Floating Rate Security (FRN or "floater"): A bond with an interest rate that is adjusted according to changes in an interest rate or index. It differs from variable-rate debt in that the changes to the rate take place immediately when the index changes, rather than on a predetermined schedule. See also "Variable Rate Security."

Foreign Notes: A debt security issued by a national government denominated in a foreign currency or U. S. dollars.

Government Accounting Standards Board (GASB): A non-profit organization that establishes generally accepted accounting principles (GAAP) for state and local governments in the United States.

Government Securities: An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

Government Sponsored Enterprise (GSE): A financial services corporation created by the United States Congress. Their intended function is to enhance the flow of credit to targeted sectors of the economy and to make those segments of the capital market more efficient and transparent, and to reduce the risk to investors and other suppliers of capital.

Instrumentality: An organization that serves a public purpose and is closely tied to a federal and/or state government, but is not a government agency. Many instrumentalities are private companies, and some are chartered directly by state or federal government.

Investment Adviser: A company that provides professional advice managing portfolios, investment recommendations and/or research in exchange for a management fee.

Investment Adviser's Act of 1940: Legislation passed by Congress in 1940 that requires all investment advisers to register with the Securities and Exchange Commission. The Act is designed to protect the public from fraud or misrepresentation by investment advisers.

Liquidity: The ability of ease with which an asset can be converted into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be transacted at those quotes.

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

Long-Term Credit Rating: Probability factor of a security issuer going into default over a long time frame.

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 repurchase and/or reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

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

Money Market Fund: An investment whose objective is to earn interest for shareholders while maintaining a net asset value (NAV) of $1 per share. A money market fund's portfolio is comprised of short-term (less than thirteen months to maturity) securities representing high-quality, liquid debt and monetary instruments.
Municipal Obligations: A form of debt obligation issued by states, provinces, cities or towns, typically used to fund municipal and local projects.

Mutual Fund: Portfolio of securities professionally managed by a registered investment company that issues shares to investors. Many different types of mutual funds exist (e.g., bond, equity, and money market funds); all except money market funds operate on a variable net asset value (NAV).

Nationally Recognized Statistical Rating Organization (NRSRO): A credit rating agency which issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. Several examples include Moody's Investor Service, Standard & Poor's and Fitch Ratings.

Net Assets: The total assets of a business minus its total liabilities.

No-Load: A mutual fund which does not levy a sales charge on the purchase of its shares. Transaction fees will still apply.

Offer: The price at which a seller is willing to sell a security.

Open End: A type of mutual fund that does not have restrictions on the amount of shares the fund will issue. If demand is high enough, the fund will continue to issue shares no matter how many investors there are. Open-end funds also buy back shares when investors wish to sell.

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 Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

Prudent Investor Standard: Standard that requires that 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. It is more stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (RP or Repo): An agreement under which the holder of securities sells these securities to an investor with a commitment to repurchase the securities at a fixed price on a fixed date. The security's "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.

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

SEC Rule 15C3-1: See "Uniform Net Capital Rule."

Securities and Exchange Commission (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Short Term Rating: Probability factor of an issuer of debt going into default within a year.
Third-Party Safekeeping: A custodial arrangement where investment securities are held by a firm that is not otherwise a party to the transaction (i.e. broker, dealer, portfolio manager) or affiliated with a party to the transaction.

Total Return: Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

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

Treasury Bonds: Long-term, coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

Treasury Notes: Medium-term, coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 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. This is one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

Yield: The rate of annual income return on an investment, expressed as a percentage. Income/current yield is obtained by dividing the current dollar income by the current market price for the security. Net yield or yield to maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.