

## COUNCIL/ADMINISTRATIVE POLICY

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**1. Introduction**

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities.

The investment policies and practices of the City of Brentwood are based on state law and prudent money management. All funds will be invested in accordance with the City of Brentwood's Investment Policy, and California Government Code Sections 53601 and 53646. The investment of bond proceeds will be governed by the provisions of relevant bond documents.

**2. Scope**

It is intended that this policy cover all funds (except bond proceeds and retirement funds) and investment activities under the direction of the Brentwood City Council.

**3. Prudence**

The Treasurer and City Council are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the City, 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 City.

**4. Objectives**

The primary objectives, in priority order, of the investment activities of the City of Brentwood shall be:

4.1 Safety. Safety of principal is the foremost objective of the investment program. Investments of the City of Brentwood shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.

4.2 Liquidity. The investment portfolio of the City of Brentwood will remain sufficiently liquid to enable the City to meet its cash flow requirements.

4.3 Return On Investment. The investment portfolio of the City of Brentwood shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

**5. Delegation of Authority**

The management responsibility for the investment program is hereby delegated to the Treasurer for a one-year period, subject to review and renewable annually. The Treasurer shall monitor and review all investments for consistency with this investment

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policy. No person may engage in an investment transaction except as provided under the limits of this policy. The Treasurer may delegate its investment decision making and execution authority to an investment advisor. The advisor shall follow the policy and such other written instructions as are provided.

**6. Ethics and Conflict of Interest**

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

**7. Permitted Investment Instruments**

**7.1 U.S. Treasuries:** United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.

**7.2 U.S. Agency Obligations:** Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

7.2.1 Any mortgage pass through security issued and guaranteed by a Federal Agency with a maximum final maturity of five years, provided that these securities are rated in one of the two highest rating categories (without regard to any gradations within such categories by numerical qualifier or otherwise) by a nationally recognized statistical-rating service organization ("NRSRO"). Purchase of securities authorized by this subdivision may not exceed 20 percent of the City's investment portfolio.

**7.3 California State & Local Agency Obligations:** Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled or operated by the state or any local agency or by a department, board, agency, or authority of the state or any local agency provided that these securities are rated in one of the two highest rating categories (without regard to any gradations within such categories by numerical qualifier or otherwise) by a NRSRO. Purchase of securities authorized by this subdivision when combined with purchases authorized by subdivision 7.4 may not exceed 30 percent of the City's investment portfolio.

**7.4 Other State Obligations:** Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California, provided that these securities are rated in one of the two highest rating categories (without regard to any gradations within such categories by numerical qualifier or otherwise) by a NRSRO. Purchase of securities

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authorized by this subdivision when combined with purchases authorized by subdivision 7.3 may not exceed 30 percent of the City's investment portfolio.

- 7.5 **Repurchase Agreements:** Repurchase Agreements used solely as short-term investments not to exceed 90 days.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities as described in 7.1 and 7.2 will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the City's custodian bank versus payment or be handled under a tri-party repurchase agreement. The total of all collateral for each Repurchase Agreement must equal or exceed, on the basis of market value plus accrued interest, 102 percent of the total dollar value of the money invested by the City of Brentwood for the term of the investment.

For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed on a regular basis, but no less frequently than quarterly. Market value must also be calculated each time there is a substitution of collateral. Any deficiency in the market valuation of the underlying securities must be made up no later than the business day following the valuation.

The City of Brentwood or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

The City of Brentwood may enter into Repurchase Agreements with (1) primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York, and (2) California and non-California banking institutions having assets in excess of \$1 billion and in the highest short-term rating category as provided by a NRSRO.

The City of Brentwood will have specific written agreements with each firm with which it enters into Repurchase Agreements.

- 7.6 **Reverse Repurchase Agreements:** Reverse repurchase agreements will not be allowed without the prior approval of the City Council. If a reverse repurchase agreement is approved, the following guidelines will be applied: The City may invest in reverse repurchase agreements only with "primary dealers" with which the City has entered into a master repurchase agreement contract. The City may invest in reverse repurchase agreements with the following conditions: The City may only use reverse repurchase agreements to (1) cover a temporary cash shortage, or (2) augment earnings. Reverse repurchase agreements may not be used to leverage the portfolio.

In addition, if a reverse repurchase agreement is authorized, it may be utilized only if the security to be sold on reverse repurchase agreement has been owned and

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fully paid for by the City for a minimum of 30 days prior to the sale; the total of all reverse repurchase agreements on investments owned by the City does not exceed 20% of the City's investment portfolio; and the agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of the security using a reverse repurchase agreement and the final maturity date of the same security. The proceeds of the reverse repurchase agreement may not be invested in securities whose maturity exceeds the term of the Reverse Repurchase Agreement.

**7.7 Bankers' Acceptances:** Bankers' Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, provided that these securities are rated in the highest short-term rating category by a NRSRO. Bankers' Acceptances may not exceed 180 days maturity. Purchase of securities authorized by this subdivision may not exceed 40 percent of the City of Brentwood's investment portfolio. Additionally, no more than 30 percent of the City's investment portfolio may be invested in the Bankers' Acceptances of any one commercial bank.

**7.8 Commercial Paper:** Commercial paper of "prime" quality of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

(1) The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation. (B) Has total assets in excess of five hundred million dollars (\$500,000,000). (C) Has debt other than commercial paper, if any, that is rated in one of the three highest rating categories (without regard to any gradations within such categories by numerical qualifier or otherwise) by a NRSRO. (2) The entity meets the following criteria: (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (B) Has program wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond. (C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization.

Eligible commercial paper shall have a maximum maturity of 270 days or less.

The City shall be subject to the following concentration limits:

(1) No more than 25 percent of the City's money may be invested in eligible commercial paper.

(2) No more than 10 percent of the total assets of the investments held by the City may be invested in any one issuer's commercial paper

(3) No more than 10 percent of the outstanding commercial paper of any single issuer.

**7.9 Medium-Term Notes:** Medium-term corporate notes defined as all corporate and

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depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term notes shall be rated in one of the three highest rating categories (without regard to any gradations within such categories by numerical qualifier or otherwise) by a NRSRO. Purchase of medium-term corporate notes may not exceed 30 percent of the City's investment portfolio.

**7.10 Time Deposits:** FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California, including U.S. branches of foreign banks licensed to do business in California. All time deposits must be collateralized in accordance with the California Government Code section 53652. Purchase of time deposits shall not exceed 25% of the City's investment portfolio.

**7.11 Negotiable Certificates of Deposit:** Negotiable certificates of deposit or deposit notes issued by a nationally or state-chartered bank or a state or federal association as defined in Section 5102 of the Financial Code or by a state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated in one of the three highest rating categories (without regard to any gradations within such categories by numerical qualifier or otherwise) by a NRSRO. Purchase of negotiable certificates of deposit may not exceed 30 percent of the City of Brentwood's investment portfolio.

**7.12 State of California's Local Agency Investment Fund:** The City may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies. The City may invest up to the maximum of \$50,000,000 per account as permitted by the LAIF Investment Advisory Board. The LAIF portfolio should be reviewed periodically.

**7.13 Insured Savings Account**

**7.14 California Asset Management Program**

**7.15 Money Market Funds:** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S. C. Sec. 80a-1, et seq.). The company must have met either of the following criteria: (1) attained the highest ranking letter and numerical rating provided by not less than two nationally recognized rating services or (2) have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of \$500,000,000.

The purchase price of shares shall not exceed 15 percent of the investment portfolio of the City of Brentwood.

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Credit criteria listed in this section refers to the credit of the issuing organization at the time the security is purchased. The maximum percentage limitations apply at the time of purchase.

**8. Prohibited Investments**

The City may only invest in those obligations authorized by this policy and shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity.

**9. Maximum Maturity**

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the City of Brentwood to meet all projected obligations.

Unless otherwise noted within this investment policy, the City may not invest in a security that exceeds five (5) years from the date of purchase.

**10. Reporting Requirements**

The City Treasurer or outside Investment Advisor shall generate and present to the Brentwood City Council monthly reports for accounting and management purposes. Required elements of this report will include:

- Description of investment instrument
- Interest rate or yield to maturity
- Purchase date
- Maturity date
- Purchase price
- Par value
- Current market value as of the date of the report and the source of this valuation
- Overall portfolio yield based on cost
- List of all transactions during the past month

On a quarterly basis, within 30 days following the end of the quarter, a quarterly report will be prepared and rendered to the Brentwood City Council. This report will provide data similar to the monthly data as well as any narrative necessary for clarification. Also, the quarterly report shall state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance. In addition, the City Treasurer will include in this report a statement denoting the ability of the City to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may not, be available.

**11. Safekeeping and Custody**

The assets of the City of Brentwood shall be secured through the third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Collateralized securities such as repurchase agreements shall be purchased using the delivery vs. payment procedure.

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**12. Annual Review of Policy**

The Treasurer shall annually render to the City Council this ~~Statement of~~ Investment Policy, which shall be considered at a public meeting. Any changes in the policy shall also be considered by the City Council at a public meeting.

**13. Glossary of Terms**

**13.1 Glossary:** Except as other provided in this policy, whenever the words defined or described in the Glossary attached to this policy are used in this policy, they shall have the same meaning attributed to them in the Glossary. However if there is a conflict between a definition contained in the Glossary and a definition of those same works in Sections 53600 et. seq. of the Government Code, the definition in the Government Code shall govern.

### GLOSSARY OF TERMS

**ACCRUED INTEREST:** Interest that is due on a bond or other fixed income security since the last interest payment was made. This often occurs for bonds purchased on the secondary market, since bonds usually pay interest every six months, but the interest is accrued by the bondholders on a day-to-day basis. When a bond is sold, the buyer pays the seller the market price plus the accrued interest, for which the buyer will be reimbursed when the issuer pays next pays interest. Accrued interest is calculated on a 30-day month/360-day year for corporate bonds and municipal bonds, and on actual-calendar-days for Government bonds. Income bonds and bonds in default trade without accrued interest. When calculating accrued interest on a bond that is being sold, it is conventional to consider the time period from the most recent payment up to, but not including, the date on which the bond sale is settled.

**AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.

**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 insurer.

**BOND:** A certificate of debt that is issued by a government or corporation in order to raise money with a promise to pay a specified sum of money at a fixed time in the future and carrying interest at a fixed rate. Generally, a bond is a promise to repay the principal along with interest (coupons) on a specified date (maturity). The main types of bonds are corporate bond, municipal bond, treasury bond, treasury note, treasury bill, and zero-coupon bond. It is a tradable debt instrument that might be sold at, above or below par (the amount paid out at maturity), and are rated by bond rating services such as Standard & Poor's and Moody's Investors Service, to specify likelihood of default. The Federal government, states, cities, corporations, and many other types of institutions sell bonds. It is relatively more secured than equity and has priority over shareholders if the company becomes insolvent and its assets are distributed.

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**COLLATERAL:** Assets pledged by a borrower to secure a loan or other credit, and subject to seizure in the event of default.

**COMMERCIAL PAPER:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory. Maturities typically range from 2 to 270 days. Commercial paper is available in a wide range of denominations, can be either discounted or interest-bearing, and usually have a limited or nonexistent secondary market. Commercial paper is usually issued by companies with high credit ratings, meaning that the investment is almost always relatively low risk.

**CUSTODIAN:** An agent, bank, trust company, or other organization which holds and safeguards an individual's, mutual funds, or investment company's assets for them.

**DELEGATION OF AUTHORITY:** Management responsibility for the investment program.

**DEPOSITORY INSTITUTION:** A central repository through which members electronically transfer stock and bond certificates (a clearinghouse facility).

**FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

**INTEREST RATE:** Interest per year divided by principal amount, expressed as a percentage.

**INVESTMENT:** The utilization of monies, not immediately needed to pay demands, by investing these surplus funds in accordance with the three objectives of safety first and foremost, followed by liquidity then yield.

**INVESTMENT ADVISOR:** A person or organization employed by an individual or mutual fund to manage assets or provide investment advice.

**LAIF:** Local Agency Investment Fund – The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**LETTERS OF CREDIT:** A document issued by a bank which guarantees the payment of a customer's drafts for a specified period and up to a specified amount.

**LIMITED LIABILITY COMPANY:** LLC. A type of company whose owners and managers receive the limited liability and (usually) tax benefits of an S Corporation without having to conform to the S Corporation restrictions.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread

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between bid and asked prices is narrow and sales of reasonable size can be done at those quotes.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MARKETABLE SECURITIES:** Securities that can be easily converted into cash. Such securities will generally have highly liquid markets allowing the security to be sold at a reasonable price very quickly.

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

**MOODY'S:** One of the most prominent credit rating agencies in the U.S.

**MUTUAL FUNDS:** An open-ended fund operated by an investment company which raises money from shareholders and invests in a group of assets, in accordance with a stated set of objectives. Mutual funds raise money by selling shares of the fund to the public, much like any other type of company can sell stock in itself to the public. Mutual funds then take the money they receive from the sale of their shares (along with any money made from previous investments) and use it to purchase various investment vehicles, such as stocks, bonds and money market instruments. In return for the money they give to the fund when purchasing shares, shareholders receive an equity position in the fund and, in effect, in each of its underlying securities. For most mutual funds, shareholders are free to sell their shares at any time, although the price of a share in a mutual fund will fluctuate daily.

**NEGOTIABLE CERTIFICATES OF DEPOSIT:** A CD with a very large denomination, usually \$1 million or more. These are usually bought by institutional investors who are interested in low-risk investments. Negotiable certificates of deposit are usually in bearer form, and have secondary markets that are highly liquid.

**NRSRO:** Nationally recognized statistical-rating organization.

**PAR VALUE:** The nominal dollar amount assigned to a security by the issuer. For an equity security, par value is usually a very small amount that bears no relationship to its market price, except for preferred stock, in which case par value is used to calculate dividend payments. For a debt security, par value is the amount repaid to the investor when the bond matures (usually, corporate bonds have a par value of \$1000, municipal bonds \$5000, and federal bonds \$10,000). In the secondary market, a bond's price fluctuates with interest rates. If interest rates are higher than the coupon rate on a bond, the bond will be sold below par value (at a "discount"). If interest rates have fallen, the price will be sold above par value.

**PASS THROUGH SECURITY:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed certificate.

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**PORTFOLIO:** Collection of securities held by an investor.

**PRIMARY DEALERS:** A designation given by the Federal Reserve System to commercial banks or broker/dealers who meet specific criteria, including capital requirements and participation in Treasury auctions.

**PROMISSORY NOTES:** A document signed by a borrower promising to repay a loan under agreed-upon terms.

**REPURCHASE AGREEMENTS:** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "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. Dealers use RP extensively to finance their positions.

**RETURN ON INVESTMENT:** ROI. A measure of a corporation's profitability, equal to a fiscal year's income divided by common stock and preferred stock equity plus long-term debt. ROI measures how effectively the firm uses its capital to generate profit; the higher the ROI, the better.

**REVERSE REPURCHASE AGREEMENTS:** A purchase of securities with an agreement to resell them at a higher price at a specific future date. This is a way to borrow money and allow the securities to be held as collateral. Reverse repurchases occur most often in government securities, and often also in other securities that are highly valued and thus considered a good source of collateral.

**SECURITIES:** Investment instruments, other than insurance policies or fixed annuities, issued by a corporation, government, or other organization which offers evidence of debt or equity. The official definition, from the Securities Exchange Act of 1934, is: "Any note, stock, treasury stock, bond, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral trust certificate, pre-organization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or in general, any instrument commonly known as a 'security'; or any certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing; but shall not include currency or any note, draft, bill of exchange, or banker's acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited."

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

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**SPECIAL PURPOSE CORPORATION:** A business interest formed solely in order to accomplish some specific task or tasks. A business may utilize a special purpose entity for accounting purposes, but these transactions must still adhere to certain regulations.

**SURETY BOND:** A bond issued by an entity on behalf of a second party, guaranteeing that the second party will fulfill an obligation or series of obligations to a third party. In the event that the obligations are not met, the third party will recover its losses via the bond.

**TIME DEPOSITS:** Savings account or CD held in a financial institution, usually a bank, for a fixed term or with the understanding that the customer can withdraw only by giving advanced notice.

**TRANSACTIONS:** An agreement between a buyer and a seller to exchange an asset for payment. In accounting, any event or condition recorded in the book of accounts.

**TRUST:** A legal arrangement in which an individual (the trustor) gives fiduciary control of property to a person or institution (the trustee) for the benefit of beneficiaries.

**TRUSTEE:** An individual or organization which holds or manages and invests assets for the benefit of another. The trustee is legally obliged to make all trust-related decisions with the trustee's interests in mind, and may be liable for damages in the event of not doing so. Trustees may be entitled to a payment for their services, if specified in the trust deed. In the specific case of the bond market, a trustee administers a bond issue for a borrower, and ensures that the issuer meets all the terms and conditions associated with the borrowing.

**UNIFORM COMMERCIAL CODE:** UCC. Set of laws regulating commercial transactions, especially ones involving the sale of goods and secured transactions.

**U.S. TREASURY:** The department of the U.S. government that issues Treasury securities.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **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.