EMERALD COAST UTILITY AUTHORITY

REQUEST FOR INFORMATION
RFI # 2013- 16

FOR

INVESTMENT ADVISORY
OR
INVESTMENT ADVISORY AND MANAGEMENT SERVICES

Issue Date: July 25, 2013
Due Date and Time: August 15, 2013

I. GENERAL INFORMATION

Introduction:

The Emerald Coast Utility Authority (ECUA) is an independent special district located in northwestern Florida and is governed by a board of five members who are elected from districts located in the county of Escambia. The ECUA manages and operates the water and wastewater systems in Escambia County and provides for the garbage collection within the county. The ECUA's objective is to obtain a total return on its long-term portfolio which meets or exceeds a benchmark comprised of US Treasury, Government Agency, Corporate Securities, Commercial Paper and other obligations while maintaining strict adherence to its adopted Investment Policy, to protect investment principal, and to maintain liquidity, while avoiding unreasonable risk.

Purpose of RFI:

The Purpose of this Request for Information (RFI) is to acquire information regarding the potential for the ECUA to enter into a contract for investment advisory services or a combination of investment advisory and management services of the ECUA's approximately $50 million dollar ($50,000,000) core (long-term) portfolio. The ECUA is seeking information from qualified firms regarding what specific services are offered and what the estimated costs would be if we contracted these services to an outside company. Based on the responses received from this RFI, the ECUA will decide if outsourcing is a viable option. Funds to be managed include certain operating, capital, debt service reserve, and other resources of the ECUA. From time-to-time, the ECUA may also request that the Investment Advisor provide services for investment of bond proceeds. The ECUA desires to contract for services from a firm registered with the Securities and Exchange Commission (SEC) under the Investment Advisor's Act of 1940 who will act in a fiduciary capacity for the ECUA. The Investment Advisor will be required to manage the funds in accordance with the laws of the State of Florida, the ECUA's investment policies and procedures established by the ECUA.

It is the ECUA's intent for the principal to be constantly reinvested in utilizing nationally recognized performance benchmarks for short, medium and long-term portfolios.

A copy of the ECUA's proposed Investment Policy is attached to this Request for Information (RFI) as Exhibit A.

RFI documents can be acquired electronically and free of charge by logging onto the ECUA's website at: http://ecua.fl.gov/business/purchasing

The ECUA encourages all prospective investment advisors to examine this RFI carefully. Qualified advisors, as defined below, are requested to submit information packages to provide the services described in this RFI. The ECUA expects its investment advisor to be a highly experienced leader and innovator in the management of investments, and be able to provide comprehensive investment advisory services.

The firm selected and its affiliates will be restricted from selling to the ECUA any securities from that firm's own inventory or account. Additionally, they will be restricted from buying from the ECUA any securities and placing same in the firm's own inventory or account. The investment advisor will also be restricted from placing into the ECUA portfolio any securities for which it, or an affiliate, is the issuer (i.e., CD's, etc.). The investment advisor shall act solely in a fiduciary capacity for the ECUA and shall not receive any fee or compensation based upon the purchase or sale of securities but, rather, the investment advisor will be compensated pursuant to the provision of its contract with the ECUA.

Any violation of the terms outlined herein will constitute a breach of contract subject to immediate termination.

Upon release of this RFI, all communications should be directed in writing to the RFI Coordinator listed below. Any oral communications will be considered unofficial and nonbinding on the ECUA.

II. SCHEDULE OF PROCEDURES

Issue RFI	7/25/2013
Final Date for Receipt of Inquiries	8/08/2013
Packets due	8/15/2013
Initial Proposal Review	week of 8/19/2013
Oral Presentation, if necessary	8/28/2013
Recommendation to Board of ECUA	TBD
Contract Negotiations	TBD

A. RFI COORDINATOR

Inquiries regarding this RFI shall be in written form only. Inquiries may be mailed, e-mailed or sent by overnight courier. All inquiries must include contact person, address and facsimile number. Response to questions will be provided to all prospective offers. Questions should be submitted to:

Patty Sheldon, CPA, CPFO, CGFO, CPFIM
Director of Budgets & Cash Management
9255 Sturdevant St.
Pensacola, FL 32514
E-mail: patty.sheldon@ecua.fl.gov

B. PREPARATION OF INFORMATION

Information packets should be prepared simply and economically, provide a straightforward, concise description of capabilities to satisfy the requirements of the RFI. Emphasis should be on completeness and clarity of content. All costs associated with the preparation of packets will be borne by each proposer.

C. NUMBER OF PACKETS

One (1) original, five (5) copies, and one (1) .pdf electronic version of the packet shall be submitted.

D. SUBMISSION OF PACKETS

The packets should be sent to:
Emerald Coast Utilities Authority
ATTN: Pete Wilkinson, Purchasing Manager
9255 Sturdevant St.
Pensacola, FL 32514

All packets must be delivered to the above office on or before August 15, 2013 at 2:00 pm Central Time. **(Packets received after the above date and time will not be considered.)** The ECUA is under no obligation to return packets. The envelope containing the packet should clearly be marked on the outside with "Request for Information for Investment Advisory Services".

E. TIME AND LOCATION OF PROPOSER'S PRESENTATION

All packets submitted will be evaluated by the ECUA's Executive Director, the Finance Director, and the Director of Budget & Cash Management. At the discretion of staff, selected proposers **may** be requested to make oral presentations. Those proposers will be notified to arrange specific times. The ECUA will not be responsible for any cost associated with the preparation of the proposer's presentation.

F. EFFECTIVE PERIOD OF PACKETS

All packets must state the period for which the proposal shall remain in effect. Such period shall not be less than 120 days from the proposal due date.

G. RIGHT OF REJECTION BY ECUA

This RFI imposes no contractual obligation whatsoever on the part of the ECUA or Vendor. Notwithstanding any other provisions of this RFI, the ECUA reserves the right to award this contract to the investment advisor that best meets the requirements of the RFI and not necessarily to the lowest bidder. Further, the ECUA reserves the right to reject any or all packets prior to execution of the contract, with no penalty to the ECUA.

H. CONTRACT NEGOTIATIONS

After a review of the packets, the Executive Director and Finance Department staff will rank the firms and make a recommendation to the ECUA Board. After Board approval, the ECUA's Executive Director, or designee, intends to enter into contract negotiations with the selected investment advisor. These negotiations could include all aspects of services and fees.

I. AWARD OF CONTRACT

A proposer to whom a contract is awarded shall be required to enter into a written contract with the ECUA in a form approved by legal counsel for the ECUA. This RFI and the proposal, or any part thereof, may be incorporated into and made a part of the final contract. ECUA reserves the right to negotiate the terms and conditions of the contract with the selected proposer.

J. CONTRACT TERM

It is the intent of the ECUA to award a contract for an initial two (2) year period with the option to renew it for additional two-year periods for a possible total of six (6) years. The decision to renew the contract will be mutually agreed upon by both parties and approved by the ECUA Board. During the period of the contract or any extension thereof, the ECUA reserves the right to restate/and or negotiate with the investment managers such additions, deletions, or changes as may be necessitated by law, changed circumstances, changes in technology and/or available investments of which the ECUA may wish to avail itself. However, no increase in quoted fees will be permitted and no additional charges will be added to items or services in the original proposal that remain unchanged.

III. MINIMUM QUALIFICATIONS

To be considered by the ECUA, proposing investment advisors must:

- Have a minimum of five years of experience in managing fixed income assets for state and local governments for at least five governmental agencies or units.

- Currently manage at least $3 billion of domestic fixed income assets for public organizations. The firms own funds will not be counted as public funds.

- Assign an account manager to the ECUA who has a minimum of ten years experience in public funds investment management in Florida.

- Demonstrate familiarity with all applicable Florida statutes with regard to qualified investments for public entities.

- Be registered with the SEC under the Investment Advisor's Act of 1940.

- Be financially solvent and appropriately capitalized to be able to service the ECUA for the duration of the contract.

- Have Errors and Omissions and Fiduciary Liability Insurance coverage of at least $10 million.

- Adhere to the Code of Professional and Ethical Standards as described by the CFA Institute.

IV. SCOPE OF SERVICES

Specific responsibilities of the selected investment manager will include, but not be limited to the following:

A. Advise and facilitate the completion and finalization of the revised ECUA Investment Policy for approval by the ECUA Board to allow for the restructuring of a long-term investment portfolio.

B. Manage on a daily basis the ECUA's long-term investment portfolio pursuant to the specific, stated investment objectives. Place all orders for the purchase and sale of securities, communicate settlement information to the ECUA staff and assist in coordinating security settlement.

C. Serve as a general resource to the ECUA staff for information, advice and training regarding fixed income securities, investments, and Treasury operations.

D. Work with ECUA staff to develop cash flow projections to ensure that the investment strategy is consistent with the ECUA's cash requirements and provide recommendations for change.

E. Provide monthly statements on investment activity, earnings and the value of the investment portfolio. These reports must include "fair value" accounting information as required by Governmental Accounting Standards Board (GASB) Statements 31 and 40. The selected investment manager must maintain accurate reports of investments including the diversity of investments and compliance with applicable investment policies of the ECUA and Florida Statutes.

F. Provide quarterly investment reports including a description of market conditions, investment strategies employed, performance, and suggested changes to investment strategy.

G. Make presentations to staff, the Citizen's Advisory Committee, and/or the ECUA Board as requested.

H. Assist in risk control to ensure the ongoing safety of the ECUA's assets not related to market risk.

I. The investment advisors **WILL NOT** provide custodial services or security safekeeping, but will help ECUA facilitate the hiring of a custodial bank.

V. REQUIRED INFORMATION

A. Firm Background

1. Provide general background information regarding your company, including a summary of previous experience in managing state/local government operating and reserve funds for comparable government agencies to the ECUA. State the dollar value of the assets and the number of portfolios the firm has under management categorized between public sector and other clients (5 pages max). Describe the organization, date founded and ownership of your firm. Has the firm experienced a significant change in organizational structure, ownership or management during the past three years and, if so, please describe.

2. Describe any other business affiliations (e.g., subsidiaries, joint ventures, "soft dollar" arrangements with brokers).

3. List the specific investment management services your company can provide for the ECUA. Please also list which tasks would still be required to be performed by ECUA staff if we choose to use your services.

4. Identify the types of accounts primarily managed by your firm.

5. Does your firm have an office in the State of Florida and describe the staff in the Florida office?

6. Is your firm a registered investment advisor under the Investment Advisor's Act of 1940? Please attach Part II of your most recent Form ADV.

7. Describe the SEC, NASD or any other regulatory censure or litigation involving your firm during the past five (5) years.

8. Summarize fidelity bond coverage, errors and omissions, employee dishonesty, fiduciary liability insurance, or other fiduciary coverage your firm carries.

9. Provide a copy of your firm's most recent audited financial statement.

B. Experience

1. Describe your firm's experience in managing investment portfolios for public funds and governmental entities including any relevant experience managing public funds in Florida.

2. Summarize your assets under management (public funds only) over the past five (5) years by the following categories: short-term, medium-term and long-term non-operating and non-restrictive funds. Also, please separate these asset totals by Government Institutions and Other Institutions.

3. What is your firm's experience in developing investment policies and portfolio management guidelines for government funds?

4. Does your firm act as a broker or as a primary dealer in securities or receive any other form of additional compensation (including soft dollars) for client transactions aside from the direct fee paid by clients?

5. Provide five (5) client references (public references) including client name, contact personnel, address, phone number, length of time you have managed their assist and a list of any other related services provided (e.g., cash flow analysis, etc.).

C. Personnel

1. Provide a summary organizational chart showing your proposed project team including analytical investment and research staff, other decision support and back office support. Identify the primary contact and describe the roles of each key person.

2. Provide detailed resumes for all key investment professionals who will be directly responsible for the investment of the ECUA's funds. Include the following information: title, number of years at your firm, total number of years of experience, professional designations or licenses.

3. Describe your firm's activities to keep portfolio managers informed of developments relevant to the management of local government funds.

D. Investment Management Approach and Discipline

1. Describe your firm's investment management philosophy.

2. Describe the investment program you are proposing for the ECUA, including the type of securities you propose to purchase, how the funds will be managed after the initial investments are made and how you will provide liquidity.

3. What are the primary strategies employed by your firm for adding value to portfolios (e.g., market timing, credit research, etc.)?

4. Describe how investment ideas are originated and how researched, and how the ultimate investment decision is made. Explain how investment decisions are then implemented, monitored and evaluated.

5. Describe your firm's research capabilities and resources. Does your firm assign credit research to specialists for public funds accounts?

6. Describe how your firm will review the credit of financial institutions it utilizes and securities to be purchased from these institutions.

7. Provide your firm's immediate-term investment (0 – 3 years) performance for the most recent five (5) years. Please show annualized quarterly returns, gross of all management fees. All performance numbers must be presented in accordance with the APT US & C.

8. Describe the daily procedures for portfolio review and client contact. How often will your firm contact the ECUA and what will be the format? If the ECUA Finance Department calls, when can we expect your firm to return the call?

9. Detail the audit processes your firm employs.

10. Detail the possession process of ECUA monies or investment securities, or if you have access to or control any such monies and/or securities.

11. Briefly describe any additional feature, attributes or conditions, which ECUA should consider in selecting your firm.

12. Describe training opportunities for ECUA staff.

E. Accounting and Reporting

1. Describe your firm's knowledge of and ability to assist in the compliance with GASB 31 and 40.

2. Describe the frequency and format of reports that you would provide to ECUA (including the methods and formulas used to calculate yield and performance). Sample reports should be included.

3. What performance benchmark would you suggest for the ECUA's portfolios given the proposed investment policy requires a short-term and a long-term benchmark.

4. Describe your on-line reporting capabilities.

F. Fees

1. Provide the fee schedule you would apply to this account, broken down by year and explain fee basis. Provide a list of your firm's proposed fee structure for investment advisory/management services for the first $50 million. Describe if there is a minimum fee.

2. What expenses, not covered by the fees, are expected to be paid by the ECUA?

3. Provide a sample of a proposed contract for your firm's services.

G. Investment Performance: Provide the gross and net annual average percentage returns on assets managed (using weighted average yield to maturity and not total return basis) versus the established benchmarks for the past 1 year, 3 years, and 5 years broken-down into: a) short-term portfolios (.5 year modified duration), b) intermediate portfolios (1.0 year modified duration), and c) long-term (1.5 years modified duration) using the format below.

	2012 (1 yr)		2010 - 2012 (3 yrs)		2009 - 2013 (5 yrs)	
Type of Portfolio	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark
Short-term (.5 yr Modified Duration) - Gross returns - Net returns						
Intermediate (1 yr Modified Duration) - Gross returns - Net returns						
Long-term (1.5 yrs Modified Duration) - Gross returns - Net returns						

For each type of portfolio listed above list the asset allocation and the appropriate benchmarks used for evaluation.

H. Acceptance Period

Packets in response to this RFI must be valid for a period of no less than 120 days from the closing date.

I. RFI Conditions and Provisions

A duly authorized official of the proposing company must sign the proposal. The completed and signed proposal must be returned to the ECUA on or before the time and date stated herein.

EXHIBIT A

Emerald Coast Utilities Authority

DRAFT

Investment Policy

Adopted on: _________________________

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I. Scope

This policy applies to the investment of short-term operating funds, longer-term operating funds and the proceeds from certain bond issues. Except for cash in certain restricted and special funds, the Emerald Coast Utilities Authority (ECUA) will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

II. General Objectives

The primary objective of the Authority's investment activities is the preservation of capital and the protection of investment principal. Funds shall be invested with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described below. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments transactions shall seek to keep capital losses at a minimum, whether they are from securities defaults or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. The objective will be to mitigate credit risk and interest rate risk.

   a. **Credit Risk:** ECUA will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
      - Limiting investments to the safest types of securities
      - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which ECUA will do business
      - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

   b. **Interest Rate Risk:** ECUA will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
      - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
      - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

From time to time, securities may be traded for other similar securities to improve yield, maturity or credit risk. For these transactions, a loss may be incurred for accounting purposes, provided any of the following occurs with respect to the replacement security:

1. Yield has been increased, or
2. Maturity has been adjusted in anticipation of interest rate changes
3. Quality of the investment has been improved.

2. **Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Periodic cash flow analyses will be completed in order to ensure that the portfolio is positioned to provide sufficient liquidity.

3. **Yield (Return on investment):** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities should not be sold prior to maturity with the following exceptions:
   - A security with declining credit may be sold early to minimize loss of principal.
   - A security swap would improve the quality, yield, or target duration in the portfolio.
   - Liquidity needs of the portfolio require that the security be sold.

III. Standards of Care

1. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing the overall program. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. The “prudent person” standard states the following:

> *Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment.*

While the standard of prudence to be used by investment officials who are officers or employees is the Prudent Person standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of “Prudent Expert”. The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investment of these funds, the contractor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investment of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

2. **Ethics and Conflicts of Interest**
   Officers and 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. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of ECUA.

3. **Delegation of Authority**
   Authority to manage the investment program is granted to ECUA's Executive Director, and/or his designee. That person is hereinafter referred to as the investment officer. Responsibility for the operation of the investment is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate all investment transactions.

   If the portfolio is split between a short term and long term core investment program, the ECUA may utilize the services of an Investment Adviser to manage the long term portion who must be registered under the Investment Advisor/s Act of 1940. The investment officer will be responsible for the transferring of appropriate funds to affect investment transactions for the long-term core investment program. The ECUA Finance Department will be responsible for the investment of operating funds, operating reserve funds, and bond proceeds.

4. **Internal Controls**
   The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of ECUA are protected from loss of funds, which might arise from fraud, employee error, and misrepresentation by third parties or imprudent actions by employees. The internal control structure shall be designed to provide reasonable assurance that the investment objectives are met. The written procedures should include reference to safekeeping, repurchase agreements, separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts, collateral/depository agreements, and "delivery-vs-payment" procedures. No person may engage in an investment transaction except as authorized under the terms of this policy.

   As a normal part of the annual financial audit of ECUA, the independent auditors shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

IV. Continuing Education

The investment officer, or designee, shall annually complete eight (8) hours of continuing education in subjects or course of study related to investment practices and products.

V. Authorized Financial Dealers and Institutions

Authorized ECUA staff shall only purchase securities from Qualified Financial Institutions and investment institutions which are designated as Primary Securities Dealers by the Federal Reserve Bank of New York. The investment officer shall only enter into repurchase agreements with financial institutions that are Qualified Institutions and Primary Securities Dealers as designated by the Federal Reserve Bank of New York. The investment officer shall maintain a list of financial institutions and broker/dealers that are approved for investment purposes and only firms meeting the following requirements will be eligible to serve as Qualified Institutions:

- Regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
- Capital of no less than $10,000,000;
- Registered as a dealer under the Securities Exchange Act of 1934;
- Member of the National Association of Dealers (NASD);
- Registered to sell securities in Florida;
- 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;
- Public Depositories qualified by the Treasurer of the State of Florida, in accordance with Chapter 280, Florida Statutes.

All brokers, dealers and other financial institutions deemed to be Qualified Institutions shall be provided with current copies of the ECUA's Investment Policy. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which ECUA transacts business.

Delivery vs. Payment All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

VI. Maturity and Liquidity Requirements

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements.

Operating Funds
To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of current operating funds shall have maturities of no longer than twelve (12) months.

Core Funds
Investment of reserves, project funds, debt proceeds and other non-operating funds ("core funds") shall have a term appropriate to the need for funds and in accordance with debt covenants, but in no event shall exceed five (5) years and the average duration of the funds as a whole may not exceed three (3) years.

The maturities of the underlying securities of a repurchase agreement will follow the requirements of the master repurchase agreement.

VII. Competitive Selection of Investment Instruments

After the investment officer, or designee and/or ECUA's Investment Advisor(s) has determined the approximate maturity date based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a competitive bid process will be initiated when feasible and appropriate. Bids will be held in confidence until the bid deemed to best meet the investment objective is determined and selected.

If obtaining bids/offers is not feasible and appropriate, securities may be purchased or sold utilizing the comparison to current market price method on an exception basis. Acceptable current market price providers include, but are not limited to:

a. Telerate Information System
b. Bloomberg Information Systems
c. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing
d. Daily market pricing provided by ECUA's custodian or their correspondent institutions
e. The Florida Local Government Surplus Funds Trust Fund

The current market price method may be used when time constraints due to unusual circumstances preclude the use of the competitive bidding process; when no active market exists for the issue being traded; when a security is unique to a single dealer; and/or when the transaction involves new issues or issues in the "when issued" market.

Overnight sweep investment instruments will not be bid, but may be placed with ECUA's depository bank relating to the demand account for which the investment instrument was purchased.

VIII. Suitable and Authorized Investments

Investments should be made subject to the cash flow needs and such cash flows are subject to revisions as market conditions and ECUA's needs change. ECUA Departments are responsible for updating cash flow projections and expense projections over $100,000 and for providing this information to the Finance Department on a quarterly basis, or as needed. When the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, the investment officer and/or ECUA's Investment Advisor/s may sell in the investment at the then-prevailing market price and place the proceeds into the proper account at the ECUA's discretion.

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by ECUA. Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the investment officer. Diversification limits outlined below may be temporarily exceeded at ECUA's discretion when general economic conditions warrant such departure. Exceeding percentage limits due to changes in portfolio balance will not require liquidation of any asset, but will restrict further investing. Investments not listed in this policy are prohibited.

1. Investment Types

Consistent with Florida Statute Chapter 280 (16), the following investments will be permitted by this policy and are those defined by state and local law where applicable:

- **The Local Government Surplus Funds Trust Fund** or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Chapter 163.01, Florida Statutes.
  - A maximum of 100% of available funds may be invested in the Local Government Surplus Funds Trust Fund managed by the State of Florida's Board of Administration (SBA).
  - A maximum of 25% of available funds if an interlocal government investment pool other than the State of Florida's SBA pool.
  - The Intergovernmental Investment Pool shall be rated "AAAm" by Standard & Poor's or the equivalent by another rating agency.
  - A thorough review of any investment pool/fund is required as Due Diligence prior to investing and on a continual basis.
  - These pools are considered to be liquid and therefore bear no maturity restrictions.

- **Money market mutual funds** regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and are rated with the highest credit quality rating from a nationally recognized rating agency.
  - A maximum of 50% of available funds may be invested in money market funds.
  - A maximum of 25% of available funds may be invested with any one money market fund.
  - The money market funds shall be rated "AAAm" by Standard & Poor's or the equivalent by another rating agency.

- **Direct obligations of the United States Treasury** which are unconditionally guaranteed by the United States Government. Such securities include, but are not limited to the following:
  - Cash Management Bills
  - Treasury Securities-State and Local Government Series (SLGS)
  - Treasury Bills
  - Treasury Notes
  - Treasury Bonds
  - Treasury Strips
    a. A maximum of 100% of available funds may be invested in the U.S. Government Securities
    b. The maximum length to maturity of any direct investment in the U.S. Government Securities is five (5) years from date of purchase.

- **Interest bearing time deposits or savings accounts** that are non-negotiable in qualified public depositories as defined by Chapter 280.02, Florida Statutes.
  - A maximum of 20% of available funds may be invested in non-negotiable interest bearing time certificates of deposit.
  - A maximum of 10% of available funds may be deposited with any one issuer.
  - The maximum maturity on any certificate shall be no greater than one (1) year from the date of purchase.

- **United States Government Agencies and instrumentalities** provided such obligations are backed by the full faith and credit of the United States Government. Such securities include, but are not limited to the following:
  - United States Export-Import Bank
  - Farmer Home Administration Certificates of beneficial ownership
  - Federal Finance Bank discount notes, notes and bonds
  - Federal Housing Administration Debentures
  - Governmental National Mortgage Association (GNMA)
  - General Services Administration
  - United States Maritime Administration Guaranteed Title XI Financing
  - New Communities Debentures-US Government Guaranteed
  - US Public Housing Notes and Bonds
  - US Department of Housing and Urban Development project notes and local authority bonds
    a. A maximum of 50% of available funds may be invested in U.S. Government agencies
    b. A maximum of 10% of available funds may be invested in any individual U.S. Government agency
    c. The maximum length to maturity for an investment in any U.S. Government agency security is five (5) years from the date of purchase.

- **Federal Instrumentalities** (US Government sponsored agencies). Bonds, debentures, notes or callables issued or guaranteed by the US Government sponsored agencies (Federal Instrumentalities), which are non-full faith and credit agencies. These are limited to the following:
  - Federal Farm Credit Bank (FFCB)
  - Federal Home Loan Bank or its County banks (FHLB)
  - Federal National Mortgage Association (FNMA)
  - Federal Home Loan Mortgage Corporation (Freddie-Macs) including
  - Federal Home Loan Mortgage Corporation participation certificates
    a. A maximum of 100% of available funds may be invested in Federal Instrumentalities
    b. A maximum of 25% of available funds may be invested in any one issuer.
    c. The maximum length to maturity for an investment in any Federal Instrumentality security is five (5) years from the date of purchase.

- **Commercial Paper** of any Unites States company that is rated, at the time or purchase, “Prime-1” by Moody’s and “A-1” by Standard & Poor’s (prime commercial paper). In addition, corporate obligations allowed are corporate obligations used by financial institutions that are fully insured by the FDIC and are guaranteed by the full faith and credit of the United States Government.
  - A maximum of 25% of available funds may be directly invested in prime commercial paper.
  - A maximum of 5% of available funds may be invested with any one issuer.
  - The maximum length to maturity for prime commercial paper shall be 270 days from the date of purchase.

- **Corporate Notes** issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a long term debt rating, at the time of purchase, at a minimum “Aa” by Moody’s and a minimum long term debt rating of “AA” by Standard & Poor’s.

- A maximum of 20% of available funds may be directly invested in corporate notes.
- A maximum of 5% of available funds may be invested with any one issuer.
- The maximum length to maturity for corporate notes shall be three (3) years from the date of purchase.

- **Banker’s Acceptances** issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, at the time of purchase, the short-term paper is rated, at a minimum, “P-1” by Moody’s Investors Services and “A-1” by Standard & Poor’s.
  - A maximum of 25% of available funds may be directly invested in Bankers’ acceptances
  - A maximum of 5% of available funds may be invested with any one issuer.
  - The maximum length to maturity for Bankers’ acceptances shall be 180 days from the date of purchase.

- **State and/or Local Government Taxable and/or Tax-Exempt Debt**, general obligation and/or revenue bonds, rated at least “Aa” by Moody’s and “AA” by Standard & Poor’s for long-term debt, or rated at least “MUG-2” by Moody’s and “SP-2” by Standard & Poor’s for short-term debt.
  - A maximum of 25% of available funds may be invested in taxable and tax-exempt General Obligation bonds
  - A maximum length to maturity for an investment in any state or local government debt security is five (5) years from the date of purchase.

- **Registered Investment Companies** (Money Market Mutual Funds) shares in open-end and no-load fund provided such funds are registered under the Federal Investment Company Act of 1940 and operate in accordance with 17 C.F.R. §270.2a-7, which stipulates that money market funds must have an average weighted maturity of 90 days or less. In addition, the share value of the money market funds must equal to $1.00.
  - A maximum of 50% of available funds may be invested in money market funds.
  - A maximum of 25% of available funds may be invested with any one money market fund.
  - The money market funds shall be rated “AAAm” by Standard & Poor’s or the equivalent by another rating agency.

- **Intergovernmental Investment Pools** that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes and provided that said funds contain no derivatives.
  - A maximum of 25% of available funds
  - The Intergovernmental Investment Pool shall be rated “AAAm” by Standard & Poor’s or the equivalent by another rating agency.
  - A thorough review of any investment pool/fund is required as Due Diligence prior to investing and on a continual basis.
  - These pools are considered to be liquid and therefore bear no maturity restrictions.

- **Repurchase agreements** whose underlying purchased securities consist only of those investments authorized in this Section (VIII).

- A third party custodian with whom ECUA has a current custodial agreement shall hold the collateral for all repurchase agreements with a term longer than one (1) business day. A clearly marked receipt that shows evidence of ownership must be supplied to ECUA.
- Securities authorized for collateral must have maturities less than ten (10 years and with market value for the principal and accrued interest of 102 percent of the value and for the term of the repurchase agreement. Immaterial short-term deviations from 102 percent requirement are permissible only upon the approval of the ECUA designee and/or ECUA's Investment Advisors.

IX. Derivatives and Reverse Repurchase Agreements

ECUA shall not invest in derivative or reverse repurchase agreement products. A "derivative" is defined as a financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or indices or asset values. Reverse repurchase agreements are not permitted by this policy.

X. Investment Parameters

1. Diversification

The investments shall be diversified by:

- limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- limiting investment in securities that have higher credit risks,
- investing in securities with varying maturities, and
- continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

2. Maximum Maturities

To the extent possible, ECUA shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, ECUA will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances. Reserve funds and other funds with longer-term investment horizons may be invested in securities not to exceed five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds.

XI. Performance Measurements

In order to assist in the evaluation of the portfolios' performance, ECUA will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks will allow ECUA to measure its returns against other investors in the same markets.

a) The short-term investment portfolio shall be evaluated in comparison with the weighted average return (net book value rate of return) of the Standard & Poor's Local Government Investment Pool All 30 Day rate (LGIP30D). The Standard & Poor's LGIP30D represents

Governmental Investment Pools that maintain a stable net asset value of $1 per share with an average maturity of 30 days and is rated in Standard & Poor's two highest money market fund rating categories: "AAAm" and "AAm".

b) The long-term investment portfolio shall be designed with the annual objective of achieving a comparable return to the Merrill Lynch 1-3 Year Treasury Index or the Merrill Lynch 1-5 Year Treasury Index, depending on which maturity range is more appropriate to the composition of the long-term portfolio at the time of reporting.

XII. Reporting

The investment officer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow ECUA to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the legislative body and shall include the following:

- Listing of securities held at the end of the reporting period by class or type
- Book value of the securities
- Income earned
- Market value as of the report date

XIII. Third-Party Custodial Agreements

Securities, with the exception of certificates of deposits, shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by ECUA should be properly designated as an asset of ECUA. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state of territory of the United States which has a branch or principal place of business in the State of Florida as defined in Section 658.12, Florida Statutes, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida. Certificates of deposits will be placed in the provider's safekeeping department for the term of the deposit.

The custodian shall accept transaction instructions only from those persons who have been duly authorized by ECUA and for which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping, unless by such a duly authorized person.

Monthly, the custodian shall provide ECUA and/or ECUA's Investment Advisors with detail information on the securities held by the custodian. Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Only after receiving written authorization from ECUA shall authorized securities be delivered "free". Securities held as collateral shall be held free and clear of any liens.

XIV. Policy Considerations

1. Exemption: Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.
2. Amendments: This policy shall be reviewed on an annual basis. The investment officer will review any proposed changes to ensure internal controls are maintained and any changes must be approved by the ECUA legislative body.

Appendix 1: Glossary of Cash Management Terms

Accrued Interest - The accumulated interest due on a bond as of the last interest payment made by the issuer.
Agency - A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).
Amortization - The systematic reduction of the amount owed on a debt issue through periodic payments of principal.
Average Life - The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.
Basis Point - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.
Bid - The indicated price at which a buyer is willing to purchase a security or commodity.
Book Value - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.
Callable Bond - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.
Call Price - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.
Call Risk - The risk to a bondholder that a bond may be redeemed prior to maturity.
Cash Sale/Purchase - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.
Collateralization - Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.
Commercial Paper - An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.
Convexity - A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.
Coupon Rate - The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."
Credit Quality - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.
Credit Risk - The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.
Current Yield (Current Return) - A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.
Delivery Versus Payment (DVP) - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.
Derivative Security - Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.
Discount - The amount by which the par value of a security exceeds the price paid for the security.

Diversification - A process of investing assets among a range of security types by sector, maturity, and quality **rating.**
Duration - A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.
Fair Value - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.
Federal Funds (Fed Funds) - Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.
Federal Funds Rate - Interest rate charged by one institution lending federal funds to the other.
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."
Interest Rate - See "Coupon Rate."
Interest Rate Risk - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.
Internal Controls - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is 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 requires estimates and judgments by management. Internal controls should address the following points:

1. **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. **Separation of transaction authority from accounting and record keeping** - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the

following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

Inverted Yield Curve - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

Investment Company Act of 1940- Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Policy - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Investment-grade Obligations - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

Liquidity - An asset that can be converted easily and quickly into cash.

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

Mark-to-market - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk - The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value - Current market price of a security.

Maturity - The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity."

Money Market Mutual Fund - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

Mutual Fund - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

Mutual Fund Statistical Services - Companies that track and rate mutual funds, e.g., IBC/Donoghue, Lipper Analytical Services, and Morningstar.

National Association of Securities Dealers (NASD) - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Net Asset Value - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings,

subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.) [(Total assets) - (Liabilities)]/(Number of shares outstanding)
No Load Fund - A mutual fund which does not levy a sales charge on the purchase of its shares.
Nominal Yield - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."
Offer - An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."
Par - Face value or principal value of a bond, typically $1,000 per bond.
Positive Yield Curve - A chart formation that illustrates short-term securities having lower yields than long-term securities.
Premium - The amount by which the price paid for a security exceeds the security's par value.
Prime Rate - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.
Principal - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.
Prospectus - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.
Prudent Person Rule - An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.
Regular Way Delivery - Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.
Reinvestment Risk - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.
Repurchase Agreement (repo or RP) - An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.
Reverse Repurchase Agreement (Reverse Repo) - An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.
Rule 2a-7 of the Investment Company Act - Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13- month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).
Safekeeping - Holding of assets (e.g., securities) by a financial institution.
Serial Bond - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.
Sinking Fund - Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.
Swap - Trading one asset for another.
Term Bond - Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.
Total Return - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return

Treasury Bills - Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.
Treasury Notes - Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from $1,000 to $1 million or more.
Treasury Bonds - Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of $1,000. Currently, the longest outstanding maturity for such securities is 30 years.
Uniform Net Capital Rule - SEC Rule 15C3-1 outlining capital requirements for broker/dealers.
Volatility - A degree of fluctuation in the price and valuation of securities.
"Volatility Risk" Rating - A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns ("aaa" by S&P; "V-1" by Fitch) to those that are highly sensitive with currently identifiable market volatility risk ("ccc-" by S&P, "V-10" by Fitch).
Weighted Average Maturity (WAM) - The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.
When Issued (WI) - A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.
Yield - The current rate of return on an investment security generally expressed as a percentage of the security's current price.
Yield-to-call (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date. Yield Curve - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.
Yield-to-maturity - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.
Zero-coupon Securities - Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.