Yorba Linda Water District

INVESTMENT POLICY

BOARD OF DIRECTORS

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Ric Collett, Board Member

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Phil Hawkins, Board Member

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SECTION 1: POLICY

1.1 It is the policy of the Yorba Linda Water District ("District") to invest public funds in a manner which ensures the safety and preservation of capital while meeting reasonably anticipated operating expenditure needs, achieving a reasonable rate of return and conforming to all state and local statutes governing the investment of public funds.

1.2 The purpose of this policy is to provide guidelines for the prudent investment of funds of the District and to outline the policies for maximizing the efficiency of the District's cash management. The District's goal is to enhance the economic status of the District consistent with the prudent protection of the District's investments. This investment policy has been prepared in conformance with all pertinent existing laws of the State of California.

SECTION 2: SCOPE

2.1 This Investment Policy applies to all funds and investment activities of the District, except for the proceeds from capital project financing instruments, which are invested in accordance with provisions of their specific documents. These funds are accounted for as Enterprise Funds and are identified in the District's Comprehensive Annual Financial Report.

SECTION 3: DELEGATION OF AUTHORITY

3.1 The authority of the Board of Directors to invest funds is derived from Section 53601 of the California Government Code ("CGC"). Section 53607 of the CGC grants the Board of Directors the authority to delegate that authority, for a one-year period, to the District's Treasurer. Therefore, management responsibility for the investment program is hereby delegated to the District's Treasurer, who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and their procedures in the absence of the Treasurer. The Treasurer shall establish procedures for the management of investment activities, including the activities of staff consistent with this Policy.

3.2 The Treasurer may retain the services of an outside investment advisor or manager as approved by the Board to assist with the District's investment program. Any investment advisor selected shall make all investment decisions and transactions in strict accordance with State law, and this Policy.

SECTION 4: INVESTMENT OBJECTIVES

4.1 The primary objectives, in priority order, of the District's investment activities shall be:

4.1.1 **Safety:** Safety and preservation of principal is the foremost objective of the investment program. Investments shall be selected in a manner that seeks to ensure the preservation of capital in the District's overall portfolio. This will be accomplished through a program of diversification and maturity limitations, more fully described in Section 13, in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

4.1.2 **Liquidity:** The District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated. Securities should mature concurrent with cash needs to meet anticipated demands.

4.1.3 **Return on Investments:** The District's investment portfolio shall be designed with the objective of attaining the best yield or returns on investments, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives.

SECTION 5: PRUDENCE

5.1 The standard of prudence to be used by the designated representative shall be the "prudent investor" standard and shall be applied in the context of managing the overall portfolio. The meaning of the standard of prudent investor is explained in CGC Section 53600.3, which states that "when investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

5.2 The Treasurer and delegated investment officers, acting in accordance with District procedures and the 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 appropriate action is taken to control adverse developments.

5.3 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.

SECTION 6.0: ETHICS AND CONFLICTS OF INTEREST

6.1 Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the District's General Manager any material financial interests in financial institutions that conduct business with the District's boundaries, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the District.

SECTION 7: AUTHORIZED BROKER/DEALERS

7.1 The Treasurer will maintain a list of authorized broker/dealers and financial institutions that are approved for investment purposes. Broker/dealers will be selected for credit worthiness and must be authorized to provide investment services in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15(C)3-1 (uniform net capital rule). No public deposit will be made by the broker/dealer except in a qualified public depository as established by the established state laws. Before a financial institution or broker/dealer is used, they are subject to investigation and approval by the Treasurer or his/her designated representative, and must submit the following:

7.1.1 Certification of having read and understood this investment policy resolution and agreeing to comply with the District's investment policy;

7.1.2 Proof of Federal Investment Regulatory Authority certification;

7.1.3 Proof of State of California registration;

7.1.4 Audited financial statements for the institution's three (3) most recent fiscal years;

7.1.5 References of other public-sector clients that similar services are provided to.

7.2 If a third party investment advisor is authorized to conduct investment transactions on the District's behalf, the investment advisor may use their own list of approved independent broker/dealers and financial institutions. The investment advisor's approved list must be made available to the District upon request.

SECTION 8: AUTHORIZED INVESTMENTS

8.1 The District is provided a broad spectrum of eligible investments under the CGC Sections 53601 et seq. Authorized investments shall also include, in accordance with CGC section 16429.1 et seq., investments into the Local Agency Investment Fund (LAIF) and the Orange County Treasurer's Commingled Investment Pool in accordance with CGC section 53684. Within the investments permitted by the CGC, the District seeks to further restrict eligible investment to the investments listed in Section 8.3 below. Percentage holding limits listed in this section apply at the time the security is purchased. Ratings, where shown, specify the minimum credit rating category required at purchased without regard to +/- or 1,2,3 modifiers, if any.

8.2 The purchase of any investment permitted by the CGC, but not listed as an authorized investment in this Policy is prohibited without the prior approval of the Board of Directors.

8.3 Within the context of these limitations, the following investments are authorized:

TABLE 1

Permitted Investments*/ Deposits	CA Government Code % of Portfolio Limits / Maturity Limits	YLWD % of Portfolio Limits / Maturity Limits
Bank Deposits#	No % limit, 5 years	No % limit, 5 years
CD Placement Service#	30% limit, 5 years	30% limit, 5 years
Local Agency Investment Fund (LAIF)^	No % or maturity limit	No % or maturity limit
County Pooled Investment Funds^	No % or maturity limit	No % or maturity limit
Joint Powers Authority Funds (CalTRUST & CAMP)^	No % or maturity limit	No % or maturity limit
U.S. Treasury Obligations	No % limit, 5 years	No % limit, 5 years
U.S. Agency Obligations	No % limit, 5 years	No % limit, 5 years
Negotiable Certificates of Deposit#	30% portfolio, 5 years	30% portfolio, 5 years
Money Market Funds*	20%, 10% per issuer, no limit	20%, 10% per issuer, no limit
Medium-Term (or Corporate) Notes*	30% portfolio, 5 years	30% portfolio, 5 years
Bankers Acceptances*	40%, 30% per issuer, 180 days	10% max, 5% per issuer, 180 days
Commercial Paper*	25%, 10% per issuer, 270 days	25% max, 5% per issuer, 270 days

* Please see Appendix A for more detailed descriptions and additional restrictions
^ Please see Section 10 for additional restrictions
# Please see Section 11 for additional restrictions

SECTION 9: REVIEW OF INVESTMENT PORTFOLIO

9.1 The securities held by the District must be in compliance with Section 8 Authorized Investments at the time of purchase. The Treasurer shall at least quarterly review the portfolio to verify that all securities are in compliance with Section 8 Authorized Investments. In the event a security held by the District is subject to a credit rating change that brings it below the minimum credit ratings specified in Appendix A Authorized Investments, the Treasurer should notify the Finance-Accounting Committee - and through the Committee's minutes, the Board - of the change. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rate drops, and the market price of the security.

SECTION 10: INVESTMENT POOLS

10.1 A thorough investigation of any investment pool or mutual fund is required prior to investing, and on a continual basis. The investigation will, at a minimum, obtain the following information:

10.1.1 A description of eligible investment securities, and a written statement of investment policy and objectives;

10.1.2 A description of interest calculations and how it is distributed, and how gains and losses are treated;

10.1.3 A description of how the securities are safeguarded (included the settlement processes), and how often the securities are priced and the program audited;

10.1.4 A description of who may invest in the program, how often and what size deposit and withdrawal are allowed;

10.1.5 A schedule for receiving statements and portfolio listings;

10.1.6 Are reserves, retained earnings, etc. utilized by the pool/fund;

10.1.7 A fee schedule and when and how it is assessed;

10.1.8 Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds.

SECTION 11: COLLATERALIZATION

11.1 **Bank Deposits:** Under provisions of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging eligible securities with a value of 110% of principal and accrued interest. State law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits.

11.2 **Waiver of Security:** The Treasurer, at his/her discretion and in accordance with CGC section 53653, may waive security for the portion of any deposits as is insured pursuant to federal law.

SECTION 12: SAFEKEEPING AND CUSTODY

12.1 All security transactions entered into by the District shall be conducted on a delivery-versus-payment basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts. The only exception to the foregoing shall be depository accounts and securities purchases made with (i) local government investment pools, and (ii) money market mutual funds, since those purchased securities are not deliverable.

SECTION 13: DIVERSIFICATION AND MAXIMUM MATURITIES

13.1 The District will diversify its investments by security type and institution. With the exception of U.S. Treasuries, U.S. Agency Securities, FDIC Insured Certificates of Deposit and authorized pools, no more than 30% of the District's total investment portfolio will be invested in a single security type or with a single financial institution.

13.2 To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow and approved in advance by the Board of Directors, the District will not directly invest in securities maturing more than 5 years from the date of purchase.

SECTION 14: INTERNAL CONTROLS

14.1 The external auditors will annually review the investments and general activities associated with the investment program. This review will provide internal control by assuring compliance with the Investment Policy and District policies and procedures.

SECTION 15: PERFORMANCE STANDARDS

15.1 The investment portfolio will be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

15.2 The District's investment strategy is passive. The performance of the District's investment portfolio will be evaluated and compared to an appropriate benchmark in order to assess the success of the investment portfolio relative to the District's Safety, Liquidity and Return on Investments objectives. This review will be conducted annually with the Finance-Accounting Committee.

SECTION 16: REPORTING

16.1 Subject to CGC sections 53607 and 53646(b), the Treasurer will provide monthly investment reports to the District's Finance-Accounting Committee (and through the Committee's minutes, to the Board of Directors) and quarterly reports to the Board of Directors which provide a clear picture of the status of the current investment portfolio. The reports shall comply with the reporting requirements of CGC sections 53607 and 53646(b), respectively.

SECTION 17: INVESTMENT POLICY ADOPTION

17.1 The District's Investment Policy will be adopted by resolution of the Board of Directors. The policy will be reviewed on an annual basis and modification, if any, must be approved by the Board of Directors.

APPENDIX "A"

DESCRIPTION OF AUTHORIZED INVESTMENTS AND RESTRICTIONS

The following descriptions of authorized investments, maximum maturities and limits are included here to assist in the administration of this policy.

1) BANK DEPOSITS

The District may make bank deposits in accordance with California Government Code section 53630 et seq., which requires collateral. Per California Government Code Section, there are three classes of deposits: (a) inactive deposits, (b) active deposits and (c) interest-bearing active deposits. The collateral requirements apply to both active deposits (checking and savings accounts) and inactive deposits (non-negotiable time certificates of deposit). The maximum maturity shall be five years. No limit will be placed on the percentage total invested in this category.

2) CD PLACEMENT SERVICE – Government Code Sections 53601.8 and 53653.8

The District may invest in collateralized certificates of deposits in accordance with the requirements in California Government Code Sections 53601.8 and 53635.8. Purchases of certificates of deposit pursuant to Government Code Sections 53601.8, 53653.8, and 53601 shall not, in total, exceed 30 percent of District's investment portfolio. The maximum maturity is limited to five years.

3) THE STATE LOCAL AGENCY INVESTMENT FUND (LAIF) – Government Code Section 16429.1

The LAIF is a special fund in the California State Treasury and an investment alternative for California's local governments and special districts created and governed pursuant to CGC Section 16429.1 *et seq.* and managed by the State Treasurer's Office. The District, with the consent of the Board of Directors, is authorized to remit money not required for the District's immediate need, to the State Treasurer for deposit in this fund for the purpose of investment. Principal may be withdrawn on one day's notice. The fees charged by LAIF are limited by statute. Investment of District funds in LAIF shall be subject to investigation and due diligence prior to investing, and on a continual basis to a level of review described in Section 10 Investment Pools. No limit will be placed on the percentage total in this category.

4) **ORANGE COUNTY TREASURER'S COMMINGLED INVESTMENT POOL (OCCIP)** – Government Code Section 53684

The OCCIP is a money market investment pool managed by the Orange County Treasurer's Office. OCCIP is more fully described in the glossary at Appendix B. The District has no funds invested in OCCIP at this time. Investment of District funds in OCCIP would be subject to investigation and due diligence prior to investing, and on a continual basis to a level of review described in Section 10 Investment Pools. There is no maturity limit. No limit will be placed on the percentage total in this category.

5) **THE INVESTMENT TRUST OF CALIFORNIA (CALTRUST)** – Government Code Section 53601(p)

The Investment Trust of California (CalTRUST) is a local government investment pool organized as a joint powers authority pursuant to California Government Code Section 6509.7. Wells Capital Management, a wholly-owned subsidiary of Wells Fargo, is the portfolio manager for each of the CalTRUST funds. Investment of District funds in CalTRUST shall be subject to investigation and due diligence prior to investing, and on a continual basis to a level of review described in Section 10 Investment Pools. No limit will be placed on the percentage total in this category.

6) **CALIFORNIA ASSSET MANAGEMENT PROGRAM (CAMP)** – Government Code Section 53601(p)

The Trust is currently governed by a Board of five Trustees, all of whom are officials or employees of Public Agencies. The Trustees are responsible for setting overall policies and procedures for the Trust. The Program's Investment Adviser and Administrator is Public Financial Management, Inc. The amounts deposited in this category shall be limited to bond proceeds and are to be invested for the purpose of arbitrage management only. The District has no funds invested in CAMP at this time. Investment of District funds in OCCIP would be subject to investigation and due diligence prior to investing, and on a continual basis to a level of review described in Section 10 Investment Pools. Proceeds may be invested in the Treasury Portfolio and/or the Money Market Portfolio. There is no maturity limit. No limit will be placed on the percentage total in this category.

7) **U.S. TREASURY OBLIGATIONS** – Government Code Section 53601(b)

United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. The maximum maturity shall be limited to five years. No limit will be placed on the percentage total invested in this category.

8) **U.S. AGENCY OBLIGATIONS** – Government Code Section 53601(f)

Federal agency or United States government-sponsored enterprise senior debt obligations, participations, mortgaged-backed securities or other instruments, including those issued by or fully guaranteed as to principal and interest by Federal agencies or United States government-sponsored enterprises. Examples of these securities include Federal National Mortgage Association, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation and Federal Home Loan Bank. The maximum maturity shall be limited to five years with no limit placed on the percentage total in this investment category.

9) **NEGOTIABLE CERTIFICATES OF DEPOSIT** – Government Code Section 53601(i)

Investments are limited to deposits issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank.

Individual investments shall be limited to Federal Deposit Insurance Corporation-insured limits of $250,000. Purchases of certificates of deposit pursuant to Government Code Sections 53601.8, 53653.8, and 53601 shall not, in total, exceed 30 percent of District's investment portfolio. The maximum maturity is limited to five years.

10) MONEY MARKET FUNDS – Government Code Section 53601(l)(2)

Shares of a beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission.

The company shall have met either of the following criteria: (A) attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized rating services and (B) retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000). There is no maturity limit. A maximum of 20 percent of the portfolio may be invested in this category, and a maximum of 10 percent of the portfolio may be invested in any single issuer.

If the District has funds invested in a money market fund, a copy of the fund's information statement shall be maintained on file. In addition, the Treasurer should review the fund's summary holdings on a quarterly basis.

11) MEDIUM-TERM (OR CORPORATE) NOTES – Government Code Section 53601(k)

Medium-term notes are defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less. The corporation must be domestic, the notes must be domestic and the notes must be issued in the United States. The corporation must be rated A or its equivalent or better by a nationally recognized rating service. The maximum maturity is limited to five years and the maximum percentage allowable for investment is 30 percent of the investment portfolio in the aggregate.

12) BANKERS' ACCEPTANCES – Government Code Section 53601 (g)

Bankers' acceptances, otherwise known as bills of exchange or time drafts, are drawn on and accepted by a commercial bank. Purchases are limited to bankers' acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System. Eligible bankers' acceptances are restricted to issuing financial institutions with a short-term debt rating of at least "A-1" or its equivalent by a nationally recognized rating service. The maximum term may not exceed 180 days and the maximum percentage allowable for investment is 10 percent of the portfolio in the aggregate, and 5% for an individual issuer.

13) COMMERCIAL PAPER – Government Code Section 53601(h)

Commercial paper rated the highest ranking or of the highest letter and number ratings as provided for by a nationally recognized rating service. The entity that issues the commercial paper shall meet either of the following two sets of criteria: (1) The corporation shall be organized and operating within the United States, shall have total assets in excess of $500,000,000, and shall have debt, other than commercial paper, if any, that is rated A or higher by a nationally recognized rating service. (2) The corporation shall be organized within the United States as a special purpose corporation, trust, or limited liability company, has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond; has commercial paper that is rated "A-1" or higher, or equivalent by a nationally recognized statistical-rating organization. Eligible commercial paper may not exceed 270 days' maturity and may not represent more than the 25 percent of the investment portfolio in the aggregate, and 5% for an individual issuer.

APPENDIX "B"

GLOSSARY

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

ASKED: The price at which securities are offered.

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

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

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

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

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report of the District. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

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

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value *(e.g., U.S. Treasury Bills.)*

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

DURATION: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, *e.g.*, S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per entity.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

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

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

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 are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

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

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

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

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

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

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

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

REPURCHASE AGREEMENT (REPO): 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.

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

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15(C)3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

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

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

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

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (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.