CITY OF

SAN BERNARDINO

Investment Policy

Fiscal Year 2025~~4~~/26~~5~~

Proposed June~~ly~~ 4~~3~~, 2025~~4~~

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I. PURPOSE

To establish guidelines for the prudent investment of public funds in a manner that will protect City funds, meet daily cash flow expenditures, and comply with all federal, state, and local laws and ordinances governing the investment of public funds.

II. POLICY & ADOPTION

It shall be the policy of the City of San Bernardino to annually review and adopt an Investment Policy by resolution of the City Council. This Policy applies to all financial assets and funds held by the City of San Bernardino and the Successor Agency to the San Bernardino Redevelopment Agency. The funds covered by this policy include:

*General Fund
*Special Revenue Funds
*Capital Project Funds
*Proprietary Funds
*Other funds that may be created

Any modifications to the Policy must be approved by the City Council.

III. PROCEDURES

The Director of Finance shall annually review the City's Investment Policy, and incorporate any changes in state law, recommendations from the City's Investment Advisor, recommendations from the various national and state organizations of municipal finance officers, or other changes recommended by City staff. The revised Investment Policy shall be presented to the Finance Committee and the City Council for review and approval.

(A) Responsibilities

No person may engage in investment activities except as provided under the terms of this Policy and the procedures established by the Director of Finance.

1. Responsibilities of the City Council

   The City Council shall annually consider and adopt a written Investment Policy. As provided in this Policy, the Council shall receive monthly Investment Reports.

2. Responsibilities of the Director of Finance

The Director of Finance is appointed by and serves at the pleasure of the City Manager and is subject to his/her direction and supervision. The Director of Finance is charged with responsibility for the conduct of all Finance Department operations. The City Charter places the "City Treasurer" responsibilities amongst the duties of the Director of Finance. That individual is charged with responsibility for carrying out all investment actions. He/she may delegate the day-to-day investment activities to their designee(s) but not the responsibility for the overall investment program. If authorized by the City Council, the Director of Finance may also utilize the services of an external investment advisor to assist with the investment program.

The Director of Finance, through supporting staff members, is responsible to manage all public funds and securities belonging to or under the control of the City and the Successor Agency, including the deposit and investment of those funds in accordance with principles of sound treasury management and applicable laws and ordinances. Appropriate internal controls designed to ensure that assets of the City are protected from loss, theft, or misuse, including but not limited to separation of duties and multiple approvers for transactions, shall be maintained at all times in order to safeguard the City's assets.

3. Responsibilities of the City's Investment Advisor (if applicable)

The City may engage in the services of outside professionals for evaluation and advice regarding the City's investment program. An authorized Investment Advisor may provide investment management services, which may also include facilitating trade executions under the direction of the Director of Finance or designee. Any Investment Advisor shall be registered by the Securities and Exchange Commission and licensed to do business in the State of California. An authorized Investment Advisor shall invest the City's funds in investments that are in compliance with this policy and provide accurate and timely reports of its investment activities to City staff. The Investment Advisor shall never take possession of the City's funds or assets.

4. Internal Controls

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, fraud or misuse.

The City's external independent auditing firm shall perform an annual analysis and review of internal controls, account activity and compliance with policies and procedures.

(B) Prudent Investor Rule

The standard of prudence to be used by the Director of Finance shall be the "prudent investor" standard. This shall be applied in the context of managing an overall portfolio.

The "Prudent Investor Rule" provides, pursuant to California Government Code Section 53600.3, that 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. The Director of Finance and any designee of the Director of Finance, as investment officers acting in accordance with written procedures and the 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 to the City Council in a timely fashion and appropriate action is taken to control adverse developments.

(C) Ethics and Conflicts of Interest

In addition to state and local statutes relating to conflicts of interest, all persons involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or impairs their ability to make impartial investment decisions. Employees and investment officers are required to annually file applicable financial disclosures as required for "public officials who manage public investments" by the Fair Political Practices Commission (FPPC) and are subject to California law relative to conflicts of interest.

(D) Level of Investment

The City strives to maintain the level of investment of all investable cash as near to 100 percent as possible through current and projected cash flow management. The Director of Finance shall maintain a system to monitor and forecast revenues and expenditures so that City funds can be invested to the fullest extent possible while providing sufficient liquidity to meet the City's reasonably anticipated cash flow requirements. Maturities of investments will be selected to provide necessary liquidity, manage interest rate risk, and optimize earnings. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds.

(E) Investment Objectives

The City seeks safety and liquidity in all of its investments followed by yield. Safety, liquidity, and yield are defined as follows:

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

2. *Liquidity*. The investment portfolio shall remain sufficiently liquid to meet 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.

3. *Yield*. The investment portfolio shall be designed with the objective of attaining a market rate of return, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

(F) Allowable Investments

The investments listed in this Policy are authorized investments pursuant to Sections 53601 and 53635 of the California Government Code and are authorized investments for the City subject, however, to the restrictions set forth in Section "K" of this Investment Policy. In the event that an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters will take precedence.

(G) Collateralization

If collateral is required for a particular investment type, it will be provided in compliance with California Government Code requirements.

(H) Investment Pools/Mutual Funds

Prior to investing in any pooled investment program (e.g., LAIF, money market funds), the Director of Finance will review the program's documentation (e.g., investment policy, policies for participation, fees) to determine the appropriateness of the pool for City funds. Whenever the City has funds invested in a pooled investment program, the Director of Finance should periodically review the pool's investment holdings. The review shall, at a minimum, obtain the following information:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, and what size of deposits and withdrawals are allowed.
- A schedule for receiving statements and portfolio listings.
- A description of how the pool/fund utilizes reserves, retained earnings, etc.
- A fee schedule, including when and how fees are assessed.
- The eligibility of the pool/fund to invest in bond proceeds and special district funds, and a description of its practices

(I) Diversification

The City shall diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. To promote diversification, no more than 5% of the portfolio may be invested in the securities of any one issuer, regardless of security type; excluding U.S. Treasuries, federal agencies, supranationals, and pooled investments such as LAIF, money market funds, or local government investment pools.

(J) Maximum Maturities

For those investment types for which this Policy does not specify a maturity limit, no individual investment shall exceed a maturity of five years from the date of purchase unless the City Council has granted express authority to make that investment either specifically or as a part of an investment program approved by the City Council no less than three months prior to the investment. The weighted average duration of the investment portfolio shall not exceed 3.0 years.

(K) Authorized Investments of the City

The following types of investments are authorized by this Policy:

1. **U.S. Treasury Instruments.** 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. There is no limitation as to the percentage of the City's portfolio that may be invested in this category. The maximum maturity for this investment is five years from the time of purchase.

2. **State of California's Local Agency Investment Fund (LAIF).** A State of California-managed investment pool. The maximum amount invested in this category may not exceed the limit set by LAIF for operating accounts. For 2023 that deposit limit is $75 million.

3. **Local Government Investment Pools ("LGIP").** Shares of beneficial interest issued by joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in Government Code (e.g. Cal Trust). The City will limit investments to LGIPs that seek to maintain a stable net asset value. There is no limitation as to the percentage of the City's portfolio that may be invested in this category.

4. **Municipal Bonds.** Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

   Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

Purchases are limited to securities rated in a rating category of “A” (long-term) or “A-1” (short-term) or their equivalents or better by a Nationally Recognized Statistical Rating Organization (NRSRO). A maximum of 30% the City’s portfolio may be invested in this category. The maximum maturity for this investment is five years from the time of purchase.

5. **Federal Agency Securities.** Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There is no limitation as to the percentage of the City’s portfolio that may be invested in this category. The maximum maturity for this investment is five years from the time of purchase.

6. **Negotiable Certificates of Deposit.** Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Securities in this category shall be limited to the maximum amount covered by federal deposit insurance currently set at $250,000. A maximum of 30% of the City’s portfolio may be invested in this category. The maximum maturity for this investment is five years from the time of purchase.

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

   (1) The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation; (B) Has total assets in excess of five hundred million dollars ($500,000,000), and (C) Has debt other than commercial paper, if any, that is rated in a rating category of “A” or its equivalent or better by an NRSRO.

   (2) The entity meets the following criteria: (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company, (B) Has program-wide credit enhancements

including, but not limited to, overcollateralization, letters of credit, or a surety bond, and (C) Has commercial paper that is rated "A-1" or better, or the equivalent, by an NRSRO.

Purchases are limited to securities that have a maximum maturity of 270 days. A maximum of 25% the City's portfolio may be invested in this category with a maximum of 5% per issuer.

8. **Corporate or Medium-Term Notes.** Corporate or medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Purchases are limited to securities rated in a rating category of "A" or its equivalent or better by an NRSRO. A maximum of 30% the City's portfolio may be invested in this category with a maximum of 5% per issuer.

9. **Money Market Funds ("MMF").** Purchases are restricted to Government Money Market Funds. Furthermore, these Money Market Funds must 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 NRSROs, or (B) Retained an investment advisor with not less than five years' experience and registered or exempt from registration with the SEC, with assets under management in excess of five hundred million dollars ($500,000,000). A maximum of 20% of the City's portfolio may be invested in this category.

10. **Supranational Obligations.** United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by a NRSRO. A maximum of 10% the City's portfolio may be invested in this category with a maximum of 5% per issuer. State law limits the percentage to 30% of the portfolio.

11. **Bankers Acceptances.** Bankers' acceptances are short-term debt instruments issued by a company that is guaranteed by a commercial bank.

Bankers Acceptances are limited to institutions with short-term debt obligations of A-1 or higher and have long term debt obligations rated "A" or higher, or the equivalent by a NRSRO. The maturity shall not exceed 180 days and no more than 30 percent of the total portfolio may be invested in banker's acceptances and no more than 5% per issuer.

12. **Deposits Placed Through a Private Sector Entity**

The City may invest in Certificates of Deposit placed through a deposit placement service that uses a private sector entity to place deposits with eligible depository institutions. These placements are subject to the following limitations:

- All deposits must be fully insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund (NCUSIF).
- The City may invest up to 50% of its surplus funds in such deposits through January 1, 2031.
- Beginning January 1, 2031, the investment limit will revert to 30% of surplus funds, unless otherwise amended by law.
- The placement service and the participating financial institutions must provide documentation verifying the full insurance of the deposits

City of San Bernardino Authorized Investment Policy Table

Investment Type	Maximum Term	Maximum % of Portfolio	Maximum per Issuer	Minimum Rating
US Treasury Obligations	5 Years	NONE	NONE	NONE
Local Agency Investment Fund (LAIF)	N/A	The City may invest up to the maximum amount permitted by California state law.	N/A	NONE
Joint Powers/Local Government Investment Pool	N/A	NONE	N/A	NONE
Municipal Debt	5 Years	30%		A1, A
Federal Agency Obligations	5 Years	NONE	NONE	NONE
Certificate of Deposits	5 Years	30%	NONE	Securities in this category shall be limited to the maximum amount covered by federal deposit insurance.
Commercial Paper	270 Days	25%	5%	A1/P1, A

Medium Term/Corporate Notes	5 Years	30%	5%	A
Money Market Mutual Funds	N/A	20%	NONE	AAA
Supranational Obligations (IBRD, IFC, IDB)	5 Years	10%	5%	M
Banker's Acceptances	180 Days	30%	5%	A1, A

(L) Prohibited Investments

Furthermore, the City will not invest in inverse floaters, range notes, mortgage-derived, interest-only strips, or any security that could result in zero interest accrual if held to maturity. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will 100% of market value for Certificate of Deposits and 102% for reverse purchase agreements or principal and accrued interest. Collateral will always be held by an independent third party with whom the entity has a current custodial relationship

(M) Performance Standards

The investment portfolio shall be managed with the objective of obtaining a market-average rate of return during budgetary and economic cycles, considering the City's investment risk constraints and the cash flow needs.

Investment return is a consideration only after the core investment portfolio tenets of safety and liquidity have been met. The Director of Finance will adopt a benchmark which best approximates the composition and weighted average maturity of the City's portfolio. The City will monitor the City's portfolio yield against the US Treasury Constant Maturity and the performance yield presented by LAIF. However, the benchmark will be used only as a reference tool and does not infer that the portfolio will be managed in an attempt to attain or exceed the stated benchmark. Benchmarks may change over time based on changes in market conditions or cash flow requirements. The selected performance benchmarks shall be representative of the City's overall investment objectives and liquidity requirements.

(N) Investment Reporting

The Director of Finance shall submit to the City Council, on a monthly basis, a report summarizing the individual transactions executed within the month. The Director of Finance shall submit to the City Council on a quarterly basis a report summarizing the status of the current investment portfolio and the individual transactions executed over the last quarter. The report shall be prepared in a manner which shall allow the City Council to ascertain whether investment activities during the reporting period have conformed to the Investment Policy.

The report will include the following elements:

- Type of investment
- Institution/Issuer
- Purchase Date
- Date of maturity
- Amount of deposit or cost of the investment
- Face value of the investment
- Current market value of securities and source of valuation
- Rate of interest
- Interest earnings
- Statement relating the report to its compliance with the Statement of Investment Policy or the manner in which the portfolio is not in compliance
- Statement on availability of funds to meet the next six month's obligations
- Percentage of Portfolio by Investment Type
- Days to Maturity for all Investments
- Comparative report on Monthly Investment Balances & Interest Yields
- Monthly transactions

(O) Portfolio Review

The Director of Finance shall continually monitor portfolio performance to ensure that the securities in the portfolio are in compliance with this Policy. The Director of Finance shall report any issues of material non-compliance in the next monthly Investment Report. Percentage holding limits and diversification requirements listed in this Policy apply at the time a security is purchased. If a percentage holding limit or diversification requirement is exceeded due to a subsequent change in the portfolio, it is not a compliance violation, but no additional securities may be purchased in that category or for that issuer until the holdings are back under the Policy limits. Credit ratings, where shown, specify the minimum credit rating category required at purchase. In the event a security held by the City is subject to a credit rating change that brings it below the minimum credit ratings specified in this Policy, the Director of Finance will notify the City Council of the change in the next monthly Investment Report. 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 rating downgrades, and the market price of the security. If a security is determined to be out of compliance with this Policy due to a subsequent change in this Policy or the Government Code, it may be held to maturity unless there is a requirement that the security be sold.

(P) Debt Proceeds

Debt proceeds and bond reserve funds are to be invested in accordance with their respective bond indenture. If the indenture is silent as to the permitted investments, the bond proceeds will be invested in the securities permitted by this Policy. Notwithstanding the other provisions of this Policy, the percentage limitations listed elsewhere in this Policy do not apply to bond proceeds and bond proceeds may be invested beyond five years if the maturities of such investments do not exceed the expected use of the funds, the investments are deemed prudent in the opinion of the Director of Finance, and the investments are not prohibited by the applicable bond documents. Tax and Revenue Anticipation Notes or other temporary financing proceeds shall not be invested for a term that exceeds the term of the debt.

(Q) Safekeeping

To protect against potential losses by collapse of individual securities dealers, all deliverable securities owned by the City, including collateral on repurchase agreements, shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a custody agreement executed by the bank and by the City. All deliverable securities will be received and delivered using standard delivery-versus-payment procedures.

(R) Qualified Financial Institutions and Broker/Dealers

The Director of Finance shall maintain a list of approved financial institutions authorized to provide investment related services to the City. In addition, the City shall maintain a list of approved security broker/dealers selected by conducting a process of due diligence. These may include ‘primary’ dealers or regional dealers that qualify under Securities and Exchange Commission (“SEC”) Rule 15C3-1 (uniform net capital rule). A copy of this Investment Policy shall be sent annually to all firms with which the City executes investments.

Additionally, all financial institutions and broker/dealers who desire to become qualified bidders of investment transactions must provide the Director of Finance with the following:

- Audited Financial Statements
- Proof of State Registration
- Copy of most recently filed Financial Industry Regulated Authority (FINRA) documentation
- Certification of having read the Investment Policy and depository contracts of the City of San Bernardino

The Director of Finance will review the existing list of either qualified broker/dealers or qualified bidders for investment transactions on an annual basis. At the discretion of the Director of Finance, and with the due diligence noted above, add or delete either broker/dealers or qualified bidders.

(S) Continuing Education and Training

To ensure the highest level of professional standards for the execution of the investment program, investment staff responsible for the day-to-day management of the portfolio are encouraged to engage in continuing education in the areas of cash and investment management.

GLOSSARY

AGENCIES: Federal agency securities.

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. The drafts are drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. An acceptance is a high grade negotiable instrument.

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.

BROKER: A broker brings buyers and sellers together for a commission. He/she does not take a position.

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.

COMMERCIAL PAPER: Short term unsecured promissory note issued by a corporation (including limited liability companies) to raise working capital. These negotiable instruments are purchased at a discount to par value or at par value with interest bearing. Commercial paper is issued by corporations such as General Motors Acceptance Corporation, IBM, Bank of America, etc.

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/her own account.

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.

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

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions (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 deposit.

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 a 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.

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.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION ("NRSRO"): Firms that review and assess the creditworthiness of an obligor as an entity or with respect to specific securities or money market instruments and express their opinion in the form of a letter rating. A credit rating agency may apply to the SEC for registration as a nationally recognized statistical rating organization ("NRSRO"). The primary rating agencies are Standard & Poor's Corporation, Moody's Investor Services, Inc. and Fitch, Inc.

NEGOTIABLE CERTIFICATES OF DEPOSIT: Generally, short-term debt instrument that usually pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a·secondary market and are payable upon order to the bearer or initial depositor (investor). Negotiable CDs are insured by FDIC up to $250,000, but they are not collateralized beyond that amount.

NON-NEGOTIABLE CERTIFICATES OF DEPOSIT: CDs that carry a penalty if redeemed prior to maturity. Non-negotiable CDs issued by banks and savings and loans are insured by the Federal Deposit Insurance Corporation up to the amount of $250,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral through an agreement between the investor and the issuer. Collateral may include other securities including Treasuries or agency securities such as those issued by the Federal National Mortgage Association.

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 that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

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.

SAFEKEEPING: The service provided by banks and trust companies for clients when the bank or trust company stores the securities, takes in coupon payments, and redeems issues at maturity.

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

SEC RULE 150-1: See “Uniform Net Capital Rule”.

SUPRANATIONAL SECURITIES: United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IDB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated “AA” or better by an NRSRO and shall not exceed 10 percent of the agency’s moneys that may be invested pursuant to this section.

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 BOND: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: Intermediate-term coupon bearing U.S. Treasury having initial maturities of from one year to ten 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.