

**CITY OF ALBUQUERQUE
INVESTMENT POLICY
EFFECTIVE February 01, 2013**

I. STATEMENT OF POLICY

The City of Albuquerque ("City") recognizes that cash is an earning asset. It is City policy to invest cash balances over amounts required to meet current financial obligations to achieve the highest rate of return consistent with the other primary objectives of preservation of principal and maintenance of adequate liquidity.

II. PRUDENT PERSON RULE

Investments on behalf of the City will be made in accordance with the "prudent person" rule; i.e., 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.

III. SCOPE OF POLICY

Unless otherwise noted, this investment policy will apply in its entirety to all monies of the City over which it has direct control as well as those funds that the City is responsible for as custodian and/or trustee. This includes all monies in the City general fund, as well as special revenue, capital project, enterprise, and trust and agency funds.

IV. INVESTMENT OBJECTIVES

The City seeks to balance three primary objectives for its cash portfolio:

- maintaining sufficient liquidity to meet financial obligations;
- earning a market rate of return (subject to permitted investment constraints); and
- diversifying investments among asset classes to ensure safety of principal.

The liquidity goal is achieved by matching investment maturities with the expected timing of obligations. Attainment of a market return is measured by benchmarking the portfolio against a relevant market index. Finally, diversification (safety) is accomplished through implementation of a strategic asset allocation, derived from modern portfolio theory concepts.

V. RETURN ON INVESTMENTS

- A. For discretionary funds (funds commingled in the City investment pool Fund 920 – Investment Clearing Fund), the goal of the City's investment program is to achieve a rate of return on investments at least equal to the time-weighted average one-year Treasury bill yield for the reporting period

- B. Returns on non-discretionary funds (i.e., Urban Enhancement and Open Space trust funds) shall be reasonable and consistent with the investment objectives, strategies and cash flow characteristics of the specific funds.
- C. The City's selection of portfolio management is active as opposed to passive. Active management uses investment strategies designed to increase portfolio value by exceeding average rates of return normally achieved using passive management. The basis used by the investment manager to determine whether market returns are being achieved shall be a benchmark recommended by the investment committee.

VI. ETHICS & CONFLICTS OF INTEREST

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 officials who are involved in investing public funds or have the authority to decide how public funds are invested shall disclose to the governing body any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose the conduct of personal business with, receipt of pecuniary benefit from, or financial interest they have in any entities in which investments are being made.

VII. PERMITTED INVESTMENTS

- A. The City operates a pooled investment program pursuant to the provisions of Chapter IV, Article I, Ordinances of the City of Albuquerque (the Fiscal Agent Ordinance). The following securities are permitted investments:
 - 1. Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America or certificates or receipts established by the United States government or its agencies or instrumentalities representing direct ownership of future interest or principal payments on direct obligations of, or obligations fully guaranteed by, the United States of America or any of its agencies or instrumentalities, the obligations of which are backed by the full faith and credit of the United States.
 - 2. Obligations of the following government-sponsored agencies: Federal Home Loan Mortgage Corp. participation certificates and senior debt obligations, Farm Credit System (formerly: federal land banks and banks for cooperatives) consolidated system-wide bonds and notes, Federal Home Loan Bank consolidated debt obligations, Federal National Mortgage Association senior debt obligations and mortgage-backed securities (excluding stripped mortgage securities which are valued greater than par on the portion of unpaid principal), Student Loan Marketing Association senior debt obligations (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date) and letter of credit backed issues and Resolution Funding Corp. debt

obligations.

3. Accounts, certificates of deposit and time deposits with banks and savings banks located in Bernalillo County, New Mexico, provided that the banks and savings banks, and the collateral securing the investment permitted by this paragraph, satisfy the requirements for deposit of public money required by Section 4-1-6 RO 1994.
4. Certificates of deposit, time deposits and banker's acceptances of any bank or savings and loan association located outside the City, the short-term obligations of which are rated in any of the three highest rating categories by any nationally recognized rating agency, provided that such deposits must be fully secured by securities designated in subsection A and B of Section 4-1-10 RO 1994 and held in safekeeping for, or on behalf of, or held in book-entry form in the name of the City.
5. Bonds or securities of the State of New Mexico or of any agency or political subdivision or school district thereof which has a taxable valuation of real property for the last year of at least one million dollars and has not defaulted in the payment of interest or sinking fund obligation or failed to pay any bonds at maturity at any time within five years preceding the date of investment.
6. Stripped securities: (i) U.S. Treasury STRIPS and (ii) REFCORP STRIPS (stripped by the Federal Reserve Bank of New York).
7. Repurchase agreements involving the purchase and sale of, and guaranteed investment contracts the par value of which is collateralized by a perfected first pledge of, or security interest in, or the payments of which are unconditionally guaranteed by, securities described in subsections A and B of Section 4-1-10 RO 1994, which collateral or securities are held by the City, or for the benefit of the City by a party other than the provider of the guaranteed investment contract or repurchase agreement, with a collateralized value of at least 102% of the par value of such repurchase agreement or guaranteed investment contract or 102% of the market value thereof, valued at intervals of no less than daily and which collateral is not subject to any other pledge or security interest. Repurchase agreements will be governed by a master repurchase agreement executed between the City and each participating dealer.
8. The "short-term investment fund" described in Section 6-10-10.1 N.M.S.A. 1978 or other similar pooled funds maintained by the State of New Mexico for the investment of public funds of the local public bodies of the state.
9. Money market instruments and other securities of commercial banks, broker-dealers or recognized financial investors, which securities or institutions are rated in the highest rating category by any nationally recognized rating agency or which securities are guaranteed by a person or entity whose long-term debt obligations are rated in the highest rating category by any nationally recognized rating agency, including, without limitation, securities of, or other interests in, any open-end or closed-end management

type investment company or investment trust registered under the provisions of 15 U.S.C. Sections 80(a)-1 et. seq., which invest only in, or whose securities are secured only by, obligations of the type set forth in paragraphs 1 and 2 of this section.

10. Shares of pooled investment funds managed by the state investment officer, as provided in Subsection (G) of Section 6-7-8 NMSA 1978.
 11. Any other investment permitted at the time of the investment by any statute of the State of New Mexico for municipalities, which have not adopted a home rule charter.
 12. Shares of a diversified investment company registered pursuant to the federal Investment Company Act of 1940 that invests in fixed-income securities or debt instruments that are listed in a nationally-recognized, broad-market, fixed-income-securities market index; provided that the investment company or manager has total assets under management of at least one hundred million dollars (\$100,000,000.00)
- B. Funds available for investment for more than one year, including monies appropriated to permanent and irrevocable trust funds may be invested as provided in Section 6-10-10.G NMSA 1978. The City Treasurer shall conduct a thorough investigation prior to investing in any pool or fund and on a continuing basis once an investment is made. Information gathered will include a written statement of policy and objectives, eligible securities, interest calculation and distribution, securities settlement and safekeeping, handling gains/losses, audit opinions, and fee schedules and statements.
- C. Notwithstanding any other provision of law to the contrary, proceeds of the bonds and other securities of the City and amounts set aside by the City in a sinking fund or otherwise for the payment of City bonds and other securities or in a reserve fund relating thereto may also be invested in:
1. Obligations, the interest on which is excluded from gross income of the recipient for federal tax purposes and any other instrument which does not constitute "investment property" under Section 148 of the Internal Revenue Code, as amended from time to time, which is rated in any of its three highest major rating categories by any nationally recognized rating agency.
 2. Any other investment specifically permitted by ordinance authorizing the issuance of the bonds or other securities or set forth in an indenture, escrow agreement or trust agreement, approved by the council, relating to the bonds or other securities.

VIII. PROHIBITED INVESTMENTS

- A. Collateralized mortgage obligations (CMOs) and other hybrid mortgage-backed, pass-through securities, because of their complexity and prepayment rate uncertainty.
- B. Inverse floaters, leveraged floaters, capped and range floaters, dual index floaters, and floating rate notes whose index is tied to a long-term interest rate or lagging index, e.g. Cost of Funds Index.

- C. Government National Mortgage Association (GNMA) guaranteed mortgage-backed securities and GNMA guaranteed participation certificates, General Services Administration participation certificates, U.S. Department of Housing & Urban Development local authority bonds, and U.S. Export-Import Bank obligations.
- D. Investment purchases on margin or short sales.
- E. Leveraging the portfolio, i.e., lending city-owned securities with an agreement to buy them back after a stated period of time (reverse repurchase agreements from the perspective of the City).

IX. RESPONSIBILITY FOR INVESTMENT GUIDELINES: THE INVESTMENT COMMITTEE

A. Committee Membership

The investment committee consists of five (5) voting members appointed by the Chief Administrative Officer of the City and includes the Director of Finance and Administrative Services, the City Treasurer, a representative employed and selected by the Albuquerque Bernalillo County Water Utility Authority, and two additional members from within City Government. The Director of Finance and Administrative Services shall serve as the Committee Chair. The Chief Financial Officer, a representative of the City Council appointed by the head of Council Services, an Assistant City Attorney, the City Economist, the City Accounting Officer, and the investment manager are invited to meet with the committee as ex-officio members.

B. Committee Functions and Responsibilities

1. The investment committee is responsible for establishing, maintaining, and amending general guidelines and procedures for investing City funds. The investment committee shall adopt, on an annual basis, a formal set of guidelines to be adhered to by the investment manager when making investments on behalf of the City. The committee will review and approve the investment guidelines at a scheduled quarterly meeting in June of each year with said guidelines becoming effective on the first day of July and remaining in force through the fiscal year ending on the next June 30th unless amended by committee action.
2. The investment committee shall review, revise if necessary, and approve the short-term investment program recommended by the investment manager. This program will be presented at each quarterly meeting and will outline appropriate action to be taken with respect to the investment of new monies over the next ninety days. In the event the investment manager deems that a material mid-course change to the program is prudent (i.e., due to an unexpected change in market interest rates), the investment manager will consult the committee and gain committee approval prior to enacting investment decisions based on the revised program.

3. The investment committee shall, at each scheduled meeting, review investment transactions made since the last meeting to insure conformance with the approved investment policy and established procedures.
4. The investment committee shall recommend changes to the investment powers granted in the Fiscal Agent Ordinance as deemed necessary to provide adequate investment alternatives for City funds.
5. The investment committee shall require a review of internal controls as part of the annual City audit.

C. Investment Committee Meetings and Actions

The investment committee shall meet quarterly. Any voting member of the committee may call special meetings at any time. A majority vote is required to approve recommendations and institute policy changes. A synopsis of committee actions will be recorded and maintained as permanent documentation of approved investment policy and procedures.

X. DELEGATION OF INVESTMENT AUTHORITY: THE DUTIES OF THE INVESTMENT MANAGER

- A. The Assistant Treasurer - Cash Management is designated as the investment manager of the City and is responsible for operational investment decisions and activities, under the direction of the City Treasurer. The Assistant Treasurer – Cash Management, as investment manager, shall develop and maintain written administrative procedures for the operation of the investment program, consistent with these policies.
- B. Duties of the Investment Manager:
 1. Preparing cash flow projections and structuring the City's investment portfolio to meet liquidity requirements.
 2. The ongoing management of the City's investment portfolio including all purchases, sales and trading activities.
 3. Adequately diversifying the portfolio among asset classes and securities to ensure elimination of unsystematic risk.
 4. Recommending investment guidelines and presenting short-term investment recommendations to the investment committee.
 5. The preparation and presentation of a comprehensive set of reports designed to keep the Investment committee fully informed of all investment transactions and current

status of the City's investment portfolio. These reports will be prepared on a quarterly basis and shall include but not be limited to the following:

- a. All investment transactions.
 - b. Brief review of money market and interest rate conditions.
 - c. Composition of investment portfolio, including par value, book value, market value, average life and maturity schedule.
 - d. Net interest income earned to date (portfolio yield).
 - e. Total return earned to date.
 - f. Portfolio performance comparison to recommended benchmark.
 - g. Historical tables on portfolio yield and size.
6. Insuring that proper controls are in place and following established procedures to guarantee the integrity and security of the City's investment portfolio.

XI. SELECTION OF APPROPRIATE INVESTMENTS

- A. Individual investments are selected to meet anticipated cash flow requirements and provide adequate liquidity. Within this cash flow perspective, the investment manager will select those securities that will best meet the City's overall portfolio strategy.
- B. The investment manager will continually analyze the risk/reward relationships existing in the marketplace with particular emphasis given to the following factors when selecting a specific security for inclusion in the City's investment portfolio:
 1. Asset Allocation – based on modern portfolio theory concepts, the security should contribute to an optimal portfolio asset allocation.
 2. Relative Yield-to-Maturity – the differential return available from alternate investment media for comparable maturity dates.
 3. Liquidity – the relative market demand for alternate securities.
 4. Inter-market Yield – the spread relationship between categories of permitted investments, i.e., Treasury bills vs. discount notes.
 5. Yield Curve – a graph showing the term structure of interest rates by plotting the yields of all bonds of the same quality with maturities ranging from the shortest to the longest available, which is useful in determining optimum maturities for purchased securities.

6. General Economic and Interest Rate Outlook – trends in economic indicators such as inflation, employment and capital investment provide insight into the optimum timing of transactions and the selection of appropriate maturities.

XII. MATURITY RESTRICTIONS

- A. The City recognizes that any portfolio of fixed rate securities is subject to interest-rate risk. The volatility of fixed-income markets makes the possibility of principal loss a key consideration in structuring portfolio maturities. Hence, in an attempt to limit the City's exposure to the possibility of loss due to interest-rate fluctuations, the City will commit no less than 80% of the funds in the commingled investment pool (Fund 920 Investment Clearing Fund) or other discretionary funds to maturities of no more than three (3) years from date of purchase. No more than 20% of the funds may be invested in maturities of up to five (5) years. Investment of non-discretionary assets, including funds to be held in trust, may be committed to maturities up to ten (10) years from the date of purchase.
- B. The final maturity of investments made as legal reserves for bonded indebtedness shall not exceed the final maturity date of the bond issue to which they are pledged.

XIII. DIVERSIFICATION

- A. The City will diversify its use of investment instruments to eliminate nonsystematic risk. Strategic and tactical asset allocations shall be determined and revised periodically by the Investment committee for all funds. In establishing asset allocation strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity range. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the total investment portfolio will be invested in a single sector or with a single financial institution or in a single maturity range. Maturities selected shall provide for stability of income and reasonable liquidity.
 1. Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments.
 2. Interest rate risk shall be controlled through duration management such that overall portfolio duration is set to a target based on existing market interest rates and rate expectations.
- B. The investment committee shall establish asset allocation strategies and guidelines for the percentage of the total portfolio that may be invested in various asset classes. The committee shall annually review these guidelines, considering the probability of interest rate and credit risk in various market sectors as part of its allocation evaluation.

XIV. TRADING SECURITIES

The City will attempt to take advantage of temporary aberrations in the market by trading securities of comparable quality to further improve the overall rate of return on the portfolio. Trades are authorized only if both an improvement in yield (pick-up in basis points) and an increase in net monetary return will be realized by the City over the life of the original investment.

XV. COMPETITIVE BIDS

- A. It is the policy of the City to invest all monies on the basis of competitive bids and/or offers:
 - 1. When certificates of deposit are being purchased, at least three eligible financial institutions shall be asked to submit rates for specified maturities.
 - 2. When U.S. Treasury obligations or federal agency securities are being purchased, with the exception of new issues offered at par, a minimum of three offers will be solicited; when these securities are being sold, a minimum of three bids will be received from dealers in government securities, one of which must be designated as a primary dealer. Transactions will be processed with those firms tendering the best bids or offers to the City.
- B. Swap transactions proposed by the City will be competitively marketed to at least three government securities dealers. However, trades proposed by an individual dealer will be awarded to that dealer if the City's criteria are met and the investment manager deems the transaction appropriate and consistent with the City's portfolio objectives.

XVI. SAFEKEEPING & CUSTODY

- A. All security transactions, including collateral for repurchase agreements, entered into by the City of Albuquerque shall be conducted on a delivery-versus-payment (“DVP”) basis.
- B. Securities will be held in the name of the City of Albuquerque by a third party custodian, designated by the Treasurer and evidenced by safekeeping receipts or Federal Reserve book-entry reporting.

XVII. AUTHORIZED FINANCIAL DEALERS & INSTITUTIONS

- A. No public deposit shall be made except in a qualified public depository as established by ordinance.
- B. Selection of banks and broker-dealers shall be made pursuant to the approved policy and procedures attached as Appendix 1.
- C. The Treasurer will maintain a list of financial institutions authorized to provide investment services.

- D. A list will be maintained of approved security broker-dealers selected by credit worthiness. These may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).
- E. All financial institutions and broker-dealers who wish to become qualified to transact investment business with the City must supply the Treasurer with the following: a completed City broker-dealer questionnaire; a current audited financial statement; proof of National Association of Securities Dealers (“NASD”) certification; and proof of registration as a broker-dealer with the New Mexico Securities Division of the Regulation and Licensing Department. The broker-dealer’s New Mexico Taxation and Revenue Department Combined Reporting System (“CRS”) tax identification number and proof of registration as a business with the City shall also be provided, if applicable.
- F. An annual review of the financial condition and registrations of qualified financial institutions and broker-dealers will be conducted by the Treasurer. A current audited financial statement is required to be on file for each financial institution and broker-dealer with which the City deposits and invests public funds.

XVIII. TRAINING AND CONTINUING EDUCATION

The City strives for professionalism and accountability in the investment program. In order to assure the highest possible professional standards, each year the members of the committee and personnel involved in the program are encouraged to participate in (complete) at least 8 hours of continuing education programs or other training in cash management and investment management.

XIX. EFFECTIVE DATE

This statement of investment policy and accompanying glossary is effective in its entirety until terminated or amended by investment committee action.

RECOMMENDED:

APPROVED:

 Lou D. Hoffman
 Chair

 Robert J. Perry
 Chief Administrative Officer

GLOSSARY

AGENCIES: Federal agency securities.

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

BID: The price offered for securities.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

CERTIFICATE OF DEPOSIT ("CD"): A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable.

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

COLLATERALIZED MORTGAGE OBLIGATIONS ("CMO"): a mortgage-backed bond secured by the cash flow of a pool of mortgages. The regular principal and interest payments made by borrowers are separated into different payment streams that repay invested capital at different rates.

COUPON: (a) The annual rate of interest 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.

CREDIT RISK: Risk of loss associated with financial failure of a security issuer.

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 ("DVP"): Delivery versus payment is the delivery of securities with a contemporaneous exchange of money for the securities.

DERIVATIVES: Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying indexes or securities, and may include a leveraging factor.

DISCOUNT: The difference between the price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price

after sale is considered to be at a discount.

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

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

DURATION: A measure of a bond's sensitivity to changes in market interest rates. On an individual security level, duration is defined as the percentage change in the price of a bond given a 1% change in interest rates. "Dollar duration" is the market value change in the position given the rate change.

FEDERAL CREDIT AGENCIES: Agencies of the federal government set up to supply credit to various classes of institutions and individuals, e.g., S&Ls, students, farmers. They issue debt instruments that are not general obligations of the U.S Treasury, but are sponsored by the government and therefore have high safety ratings.

FEDERAL DEPOSIT INSURANCE CORPORATION ("FDIC"): A federal agency that insures deposits in financial institutions, currently up to \$100,000 per deposit.

FEDERAL FARM CREDIT BANK ("FFCB"): The FFCB system provides credit services to farmers and farm-related enterprises. The FFCB sets rates and consolidates the financing activities of the intermediate banks throughout the 12 district system. FFCB issues short-term discount notes and fixed rate bonds. The bonds enjoy a secondary market even more active than the discount notes.

FEDERAL HOME LOAN BANKS ("FHLB"): The institutions that regulate and lend to savings and loan associations in a manner similar to the role Federal Reserve plays with commercial banks. It raises money by issuing notes, bonds and discount instruments.

FEDERAL HOME LOAN MORTGAGE CORPORATION ("FHLMC"): A publicly chartered agency that buys qualifying residential mortgages from lenders, packages them into securities backed by the pooled mortgages and sells the securities on the open market. FHLMC or Freddie Mac also sells debentures. The mortgage-backed securities and debentures are federally guaranteed. The secondary market for these instruments is enormous.

FEDERAL NATIONAL MORTGAGE ASSOCIATION ("FNMA"): A publicly-owned, government sponsored corporation chartered in 1938 to purchase mortgages from lenders and resell them to investors. FNMA or Fannie Mae securities are also highly liquid and widely accepted.

FEDERAL RESERVE SYSTEM: The central bank of the United States established by the Federal Reserve Act of 1913 to regulate the U.S. monetary and banking system. It (the Fed) is comprised of 12 regional Federal Reserve banks, their 24 branches and about

5,700 commercial banks that are members of the system. The system's main functions are to regulate the national money supply through the purchase and sale of securities, set reserve requirements for member banks, act as a clearing house for the transfer of funds throughout the banking system, and examine member banks to insure they meet various Federal Reserve regulations

FLOATER - FLOATING RATE NOTE: A debt instrument with a variable interest rate tied to another interest rate or index. Maturities range up to five years and interest adjustments are made periodically.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (“GNMA”): A government-owned corporation and agency of the U.S. Department of Housing and Urban Development. Mortgage-backed securities (called pass throughs) are guaranteed by GNMA or Ginnie Mae, issued by private firms, and marketed by broker-dealers. Backed by full faith and credit of U.S. government.

GOVERNMENT OBLIGATIONS: U.S. government debt instruments (Treasury bonds, notes, bills) the government has pledged to repay. Called treasuries.

GOVERNMENTS: (1) Securities issued and backed by the full faith and credit of the U.S. Government. (2) Debt issues of federal agencies not directly backed by, but have the implied credit of the U.S. Government. Called agencies.

INTEREST RATE RISK: The potential decline in value of a security or portfolio due to rising rates over time. (see MARKET RISK)

INVERSE FLOATER: A mortgage-backed bond, usually part of a CMO bearing an interest rate that declines as an index rate, for example, the LIBOR rate, increases. An inverse floater may have a floor (lower limit) and a cap (upper limit). Also called a *reverse floater*.

INVESTMENT GRADE SECURITIES: A bond with a rating of AAA to BBB.

LIBOR: London Inter-bank Borrowing Rate.

LIQUIDITY: The ability to convert assets into cash or cash equivalents without significant loss.

MARKETABILITY: The speed and ease with which a security can be bought or sold.

MARKET RISK: The risk that an asset will decline in price, resulting in a financial loss to the holder when the asset is sold.

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

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establish each party's rights in the transactions.

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

MODERN PORTFOLIO THEORY: A portfolio management theory developed by Nobel Laureate Harry Markowitz in the 1950's. MPT is the prevailing basis for portfolio construction and maintenance today. Its fundamental premise is that combining risky assets (securities) which have different correlations and covariances by submitting them an "optimization" process will result in the least risky portfolio for a given target rate of return, or alternatively the highest rate of return for a given target level of risk (risk defined in terms of standard deviation).

MONEY MARKET: The market in which short-term debt instruments are issued and traded.

NON-DISCRETIONARY FUNDS: Public monies set aside, appropriated or otherwise dedicated to a specific project, purpose, trust fund, etc with definable objective and cash flow. Non-discretionary funds include, but are not limited to the Urban Enhancement Trust Fund, Risk Management Fund, Open Space Fund, Refuse Disposal Fund, Joint Water Sewer Bond Capital Acquisition Fund, and debt service reserve funds and escrows.

POOLED INVESTMENT PROGRAM: Aggregating monies in all funds, thereby providing the opportunity to share in a portfolio with greater diversification and the hope of a better return on investment than would be realized individually.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: One of a group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank in New York and are registered with the Securities Exchange Commission ("SEC").

RATING AGENCY: Rating service company that evaluates securities investment and credit risk; Fitch Investors Service, Moody's, Standard & Poor's Corp. Rating categories range from AAA (highest value) to D (questionable value).

RATING CATEGORY: A generic securities rating category of any nationally recognized rating agency without regard, in the case of a long-term rating category, to any refinement or gradation of such long-term rating category by a numerical modifier or otherwise.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or current market price; amortized to maturity or the current income return (the coupon rate

divided by price.)

REPURCHASE AGREEMENT: An agreement between a seller (dealer) and a buyer (City) of government securities, whereby the seller (dealer) agrees to repurchase the securities at an agreed upon price and at a stated time.

REVERSE REPURCHASE AGREEMENT: The opposite of a repurchase agreement transaction, a reverse repurchase agreement occurs when the holder of the securities (City) sells them to a dealer, with an agreement to buy them back at a later date at a higher price.

SAFEKEEPING: Storage and protection of a customer's financial assets, provided as a service by an institution/bank serving as agent and, where control is delegated to the customer, also as custodian.

SECONDARY MARKET: A market for the purchase and sale of securities subsequent to original issuance.

SEC RULE 15C3-1: (See UNIFORM NET CAPITAL RULE)

SECURITIES & EXCHANGE COMMISSION (“SEC”): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SPREAD: (1) Difference between yields on securities of the same quality but different maturities. (2) Difference between yields on securities of the same maturity but different quality.

STRIPS: A pre-stripped zero-coupon bond that is a direct obligation of the U.S. Treasury; Separate Tradings of Registered Interest and Principal of Securities.

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

STUDENT LOAN MARKETING ASSOCIATION (SLMA): Established by federal decree, a private corporation that purchases student loans from originating financial institutions and provides financing to state student loan agencies. SLMA or Sallie Mae issues short-term, medium-term and floating rate notes.

TIME DEPOSIT: Savings account or certificate of deposit held in a financial institution for a fixed term or with the understanding that the depositor can withdraw only by giving notice.

TREASURIES: Securities issued by the U.S. Treasury.

TREASURY BILLS: Short-term securities with maturities of one year or less issued at a discount by the U.S. Treasury.

TREASURY BONDS: Long-term, coupon-bearing debt instruments with maturities of 10 years or longer issued by the U.S. Treasury.

TREASURY NOTES: Intermediate, coupon-bearing securities with maturities of 1 to 10 years issued by the U.S. Treasury.

UNIFORM NET CAPITAL RULE: SEC requirement that member firms as well as non-member broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1.

YIELD CURVE: A graph showing the term structure of interest rates by plotting the yields of all bonds of the same quality with maturities ranging from the shortest to the longest.

YIELD: The annual rate of return on an investment, expressed as a percentage. That is: (1) Income yield, which is current dollar income divided by current market price of the security; or (2) Net yield or yield to maturity (YTM), which is current income minus any premium or plus any discount spread over the period from the date of purchase to the date of maturity of the security.

ZERO-COUPON SECURITY: A security that makes no periodic interest payments, but instead is sold at a deep discount from its face value. (See STRIPS).