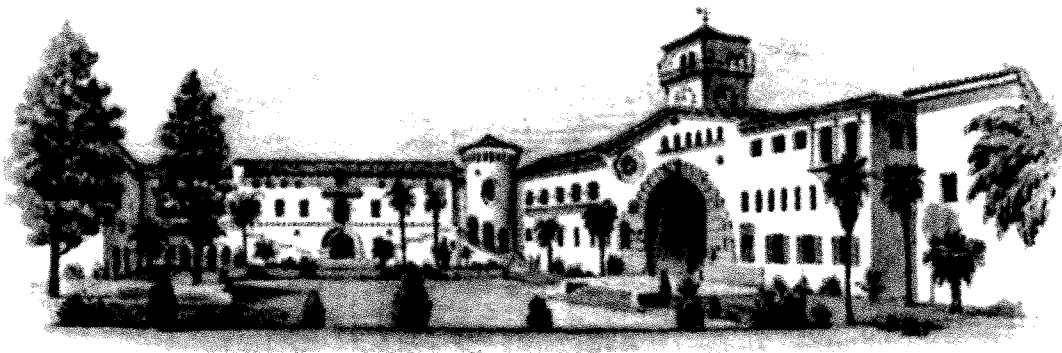


Attachment 2

SANTA BARBARA COUNTY

TREASURER



INVESTMENT POLICY

STATEMENT

Harry E. Hagen, CPA
Treasurer-Tax Collector

Daniel A. Chandler, CPA
Chief Investment Officer

Certifications

The Santa Barbara County Investment Pool Policy Statement was certified by the Government Investment Officer's Association (GIOA) on May 6, 2023.



The Santa Barbara County Investment Pool Policy Statement was certified by the California Municipal Treasurers Association (CMTA) on February 26, 2024.

California Municipal Treasurers Association



Investment Policy Certification

Issued on 02/26/2024



Santa Barbara County

The California Municipal Treasurers Association certifies that the investment policy of the County of Santa Barbara complies with the current State statutes governing the investment practices of local government entities located within the State of California.





President

02/26/2024

Date

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1. OVERVIEW

The County of Santa Barbara's Investment Policy has been prepared in accordance with State law. This Policy is presented annually to the Treasury Oversight Committee for review and to the Board of Supervisors for approval, pursuant to the requirements of sections §53646(a) and §27133 of the California Government Code. The County establishes investment policies that meet its current investment goals. The County may change this policy as its investment objectives change.

This policy contains the following frequently used abbreviations:

- Santa Barbara County Investment Pool (Investment Pool)
- Santa Barbara County Investment Policy (Investment Policy)
- Santa Barbara County Treasurer (Treasurer)
- Santa Barbara County Board of Supervisors (BOS)
- Treasury Oversight Committee (TOC)
- California Government Code (CGC)

2. POLICY

The purpose of this policy is to provide a basis for the implementation and management of a prudent, conservative investment program. It is the policy of the Treasurer to invest public funds in a manner which provides the maximum security of principal invested with secondary emphasis on achieving the highest return, while meeting the daily cash flow needs of the Investment Pool participants and conforming to all applicable State statutes and County resolutions governing the investment of public funds.

As an elected official, the Treasurer must manage public monies in a way that is consistent with investment oversight and sound investment practices. To have an investment policy which only concerns itself with maximizing return is careless and negligent. The basic concept of investment management is the risk/reward relationship. A higher promised return on any investment may indicate a higher level of risk. Risk management must be an integral part of any prudent investment policy. Risk management must include adequate internal controls, so Investment Pool participants and the public have confidence that public monies are secure. Though all investments contain a degree of risk, the proper exercise of prudence, the maintenance of a high level of ethical standards, and the proper delegation of authority reduces the potential for loss.

3. PURPOSES

This policy is set forth by the Treasurer for the following purposes:

- 3.1 To implement the investment program in accordance with its legislative parameters and the authority to invest which is hereby delegated to the Treasurer by the BOS.
- 3.2 To establish a clear understanding for the BOS, County management, responsible employees, citizens, and third parties of the objectives, policies, and guidelines for the investment of idle and surplus funds.

- 3.3 To offer guidance to investment staff and any external investment advisors on the investment of the Pool.

4. OBJECTIVES

Investments must always follow all federal laws, state laws and local regulations governing the investment of money under control of the Treasurer, this policy, and the Prudent Investment standard of care. The objectives of this policy are, in order of priority:

- 4.1 Safety of principal. The primary objective of the Treasurer’s investment program is to safeguard investment principal by mitigating exposure to risk factors, including, but not limited to, market (interest rate) risk, credit risk, and reinvestment risk. Specific risk parameters are set forth in sections 13 and 14 of this policy.
- 4.2 Maintenance of sufficient liquidity to meet cash flow needs.
- 4.3 Attainment of a “market average rate of return” consistent with the primary objectives of safety and liquidity.

5. SCOPE

This policy applies to county, school and special district fund assets deposited in the County Treasury and under control of the Treasurer. It does not apply to assets that are not deposited in the County Treasury, including, but not limited to:

- 5.1 Bond Funds (the investment of which is governed by the bond documents).
- 5.2 Assets of Investment Pool participants other than assets on deposit in the County Treasury (which are the responsibility of the participant’s governing body); and
- 5.3 Deferred Compensation Plan assets (which are invested for the benefit of participants in the Plan).
- 5.4 The Treasurer may direct specific-purpose assets belonging to the county or other participants in instruments the earnings of which are not shared but credited to the specific-purpose fund. The investments for these direct Pools shall be made in accordance with this policy, except that investments may be for periods greater than five years when a longer term is advantageous for the investment of money held for specific purposes. Investments for periods longer than five years require prior approval of the governing body in accordance with CGC section §53601.

6. STANDARD OF CARE

- 6.1 The Prudent Investor Standard is the appropriate standard of care for the Pool. This standard shall be used by investment officials and shall be applied in the context of managing an overall portfolio. Investment staff 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 within 30 days and appropriate action is taken to control adverse developments.

6.2 The Prudent Investor Standard Defined: 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, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments of an overall strategy, a trustee is authorized to acquire investments as authorized by law.

7. DELEGATION OF AUTHORITY

7.1 Authority to manage the County's investment program is derived from the CGC sections §53600 et seq., and sections §53630 et seq.

7.2 The Treasurer is authorized by Santa Barbara County Code section 2-24.8 to invest or reinvest the funds of the county and the funds of the other depositors in the County Treasury, pursuant to CGC Chapter 4 (commencing with section §53600) of Par 1 of Division 2 of Title 5.

7.3 Within the Treasurer's office, the Treasurer has the authority to appoint individuals responsible for management of the portfolio, to make investments and to direct the receipt and delivery of investment securities at the custody bank. The Treasurer has delegated authority for the Investment Pool to the Chief Investment Officer, the Chief Finance Officer, and the Assistant Treasurer.

8. ETHICS AND CONFLICTS OF INTEREST

8.1 Individuals performing the investment function and members of the TOC shall maintain the highest standards of conduct. They must maintain their independence and not have actual conflicts of interest. In addition, they shall avoid the appearance of having conflicts of interest or having a lack of independence.

8.2 All investment personnel shall disclose to the Treasurer any financial interests in financial institutions that conduct business with the County of Santa Barbara and shall disclose any material financial positions that could be related in a conflicting manner to the investment strategies and performance of the Investment Pool. In accordance with State law, the Treasurer, and individuals responsible for management of the portfolio shall complete and submit State of California Form 700, Statement of Economic Interests Disclosure. Should any conflicts be disclosed, the Treasurer will resolve such matters as soon as practical.

8.3 The Treasurer, individuals responsible for management of the portfolio, and members of the TOC will not accept a gift or gifts aggregating more than the Fair Political Practices Commission guidelines in a calendar year from an advisor, broker, dealer, banker, or other persons with whom the Treasurer conducts business.

8.4 The Treasurer, individuals responsible for management of the portfolio, and members of the TOC may not accept any honorarium from advisors, brokers, dealers, bankers, or other persons with whom the Treasurer conducts business or may, in the future, conduct business.

- 8.5 A member of the TOC may not be employed by an entity that has contributed to the campaign of a candidate for the office of the Treasurer or a candidate for a legislative body of a local agency that has deposited funds in the County Treasury in the previous three years or while a member of the Committee. A member may not secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or financial services firms, with whom the Treasurer is doing business during the period that the person is a member of the Committee or for one year after leaving the Committee.
- 8.6 A member of the TOC may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the County Treasury while a member of the Committee.

9. SAFEKEEPING AND CUSTODY

To protect against potential losses by collapse of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all securities owned by the County shall be deposited for safekeeping with the custodial bank that has contracted to provide the Treasurer with custody and security clearance services or with a tri-party custodian bank under a written tri-party custody agreement. These third-party trust department arrangements provide the County with a perfected interest in, ownership of and control over the securities held by the bank custodian on the County's behalf and are intended to protect the County from the bank's own creditors in the event of a bank default and filing for bankruptcy. Securities are not to be held in investment firm/broker dealer accounts.

10. DELIVERY VS. PAYMENT

All security transactions are to be conducted using industry-standard "delivery-versus-payment" procedures.

11. INTERNAL CONTROLS

- 11.1 The Treasurer shall establish and document a system of internal controls that is prudent and comprehensive. Internal controls shall be designed to provide reasonable assurances that the combined Investment Pool assets are protected. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived.
- 11.2 Internal controls are designed to ensure separation of transaction authority from accounting and record keeping and to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the Treasurer's office.
- 11.3 No investment personnel may engage in an investment transaction except as provided under this policy and the procedures established by the Treasurer.

12. AUTHORIZED DEALERS AND INSTITUTIONS

- 12.1 The Treasurer shall determine which financial institutions are authorized to provide investment services to the County pursuant to CGC §53601.5. Institutions eligible to transact investment business with the County include but are not limited to:
- a) Primary government dealers (including their parent and subsidiaries) as designated by the Federal Reserve Bank
 - b) Nationally or state-chartered banks
 - c) The Federal Reserve Bank
 - d) Regional dealers
 - e) Direct issuers of securities eligible for purchase by the County
- 12.2 Selection of financial institutions and broker/dealers authorized to engage in transactions with the County shall be at the sole discretion of the County.
- 12.3 All financial institutions which desire to become authorized dealers for investment transactions shall complete the Santa Barbara County's "Request for Qualification" form. Each qualified dealer must certify in writing that they have reviewed the relevant CGC sections and the Investment Policy and that all securities offered to the County shall comply fully and in every instance with all provisions of the Code and with this policy.
- 12.4 The authorized dealers and financial institutions must not have made any political contribution to the Treasurer, BOS, or candidates for these offices for 48 months before and any time during their engagement with the County.
- 12.5 Public deposits shall be made in accordance with State law. Deposits shall be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, shall be collateralized with securities in accordance with State law.
- 12.6 The Treasurer, or designee, will create and review periodically an approved list of firms and financial institutions authorized to do business with the Treasurer.

13. ALLOWABLE INVESTMENTS

13.1 All investments shall be made in accordance with CGC §53601, §53630 et seq., and as described within this policy. Percentage allowances per this policy shall be determined by the overall portfolio size at book value on the close of the date any security is settled. Allowable investments under this policy are described in Figure 1 below.

Figure 1					
Allowable Investments and Investment Restrictions					
AUTHORIZED INVESTMENTS	PERCENT OF TOTAL PORTFOLIO	PERCENT BY ISSUER	MAX MATURITY	CREDIT QUALITY (S&P/MOODY'S / FITCH)	AUTHORIZED BY CA GOV CODE
Local Agency Bonds	10%	None	5 years	None	§53601(a)
U.S. Treasury Obligations	100%	None	5 years ^A	Guaranteed by U.S. Government	§53601(b)
State Obligations issued by California and 49 other states	10%	None	5 years	None	§53601(c)(d)
Local Agency Obligations issued by local agencies in California	10%	None	5 years	None	§53601(e)
Federal Agency or U.S. government sponsored enterprise (GSE) obligations	Callable GSE's limited to 50% of portfolio	25%	5 years	None	§53601(f)
Bankers' Acceptances	40% ^H	5%	180 days	A1 / P1 / F1 by at least 2 of the 3 rating agencies	§53601(g)
Negotiable Certificates of Deposits	30%	5%	1 year	A1 / P1 / F1 by at least 2 of the 3 rating agencies	§53601(i)
Repurchase Agreements	20%	Contract must be on file	30 days	Restricted to primary dealers and state-chartered banks on eligible list ^E	§53601(j)
Reverse Repurchase Agreements (REPO)	20% of the base value of the portfolio	Contract must be on file	92 days ^F	Restricted to primary dealers on County's eligible list ^G	§53601(j)
Medium Term Notes or Corporate Notes from U.S. corporations	30% of portfolio & 10% of portfolio in maturity greater than 3 years	5%	5 years	AA by at least 2 of the 3 rating agencies if more than 3 years: AA-up to 3 yrs. AAA if TLGP	§53601(k)
Mutual Funds and Money Market Mutual Funds	15%	10%; no NAV adjustments ; no front-end loads	Daily liquidity	AAA by at least 2 of the 3 rating agencies ^N	§53601(l)

Figure 1**Allowable Investments and Investment Restrictions**

AUTHORIZED INVESTMENTS	PERCENT OF TOTAL PORTFOLIO	PERCENT BY ISSUER	MAX MATURITY	CREDIT QUALITY (S&P/MOODY'S / FITCH)	AUTHORIZED BY CA GOV CODE
Collateralized Bank Deposits ^C	10%	None	1 year	None	§53601(n) and §53630 et seq.
Mortgage Pass-through and Asset Backed Securities	20%	None	1 year	AA rating category or its equivalent or better	§53601(o)
Joint Powers Authority (JPA) Pools such as CAMP ^B	As limited by each JPA Pool	As limited by each JPA Pool	Daily Liquidity	None	§53601(p)
Supranational Obligations ^J	30%	5%	5 years	AA by at least 1 rating agency	§53601(q)
Public Bank Obligations	None	None	5 years	None	53601(r), 53635(c), and 57603
Placement Service Deposits into FDIC insured deposit accounts such as FICA	10% ^O	\$100 Million per placement service	Daily liquidity	FDIC Insured ^I	§53601.8 and §53635.8
Commercial Paper from Pooled funds ^L	40%	10% of agency's money ^M	270 days	A1 / P1 / F1 by at least 2 of the 3 rating agencies ^D	53635(a)(1)
Local Agency Investment Fund (LAIF)	As limited by LAIF	As limited by LAIF	Daily Liquidity	None	§16429.1 (a)(b)(d)

Figure 1 Notes

A. The final maturity shall not exceed five years, unless specifically authorized by the BOS.

B. Joint Powers Authority such as the California Asset Management Program (CAMP). Managed Pools' pursuant to CGC §53601(p) for which shares of beneficial interest issued by a joint powers authority organized pursuant to CGC §6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (o) of CGC section §53601, inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint power's authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that is registered with the SEC and has not less than five years of experience investing in the securities and obligations authorized in CGC §53601 (a) to (o).

C. Collateralized Bank deposits (Non-negotiable certificates of deposit) which are fully collateralized with securities in accordance with California law.

D. Commercial paper of U.S. corporations with total assets exceeding \$500,000,000. Medium Term or Corporate Notes (MTNs) of United States corporations & Depository Institutions or Medium-Term Notes of U.S. Corporations and Depository Institutions issued under the Temporary Liquidity Guarantee Program,

Figure 1 Notes

guaranteed by the Federal Deposit Insurance Corporation. The issuer of non-TLGP notes shall be rated AA by at least two of the three major rating services of Moody's, S&P, and Fitch if maturity is greater than 3 years and shall be rated AA- by at least two of the three major rating services of Moody's, S&P, and Fitch if maturity is 3 years or less. TLGP notes shall be rated AAA by one of the three major rating services.

E. Repurchase agreements collateralized with securities authorized under 13.1.a, and 13.2.a of this policy maintained at a level of at least 102% of the market value of the repurchase agreements. The repurchase agreements are the subject of a master repurchase agreement between the County and the provider of the repurchase agreement. The master repurchase agreement shall be substantially in the form developed by the Public Securities Association, and the counterparty to the repurchase agreements is a primary government securities dealer as designated by the Federal Reserve Bank of New York and state-chartered banks.

F. Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.

G. Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.

H. No more than 30 percent of the agency's money may be in the banker's acceptances of any one commercial bank.

I. Placement Service Deposits are FDIC Insured Deposit Accounts authorized pursuant to CGC sections §53601.8 and §53635.8. The deposit of funds may be placed directly with a selected depository institution not to exceed the issuance limit from the Federal Deposit Insurance Corporation (FDIC). A selected depository may use a private sector entity to help place deposits with one or more commercial bank or savings bank located in the United States. The full amount of each deposit and the interest that may accrue on each such deposit shall always be insured by the Federal Deposit Insurance Corporation (FDIC),

J. Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less.

K. Not used

L. Includes agencies defined as county, city and county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. Local agencies pool exclusively with other local agencies that have the same governing body must adhere to the limits set forth in section §53601(h)(2)(c).

M. Local agencies, other than counties or a city and county, may purchase no more than 10% of the outstanding commercial paper and medium-term notes of any single issuer.

N. A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies, or the fund must retain an investment advisor who is registered with SEC (or exempt registration), has assets of \$500 million, and has at least five years' experience investing in instruments authorized by CGC §53601 and §53635.

O. Effective January 1, 2020, no more than 50 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under CGC §53601.8 (excludes negotiable certificates of deposit authorized under CGC §53601(i)). On January 1, 2026, the maximum percentage of the portfolio reverts to 30 percent. Investments made pursuant to CGC §53635.8 remain

Figure 1 Notes
subject to a maximum of 30 percent of the portfolio. The Treasurer has further restricted the maximum percentage for this investment to 10% of the portfolio.

13.2 Bank Accounts

Bank accounts, where withdrawals can be made at any time and are subject to CGC §53630 et seq are not considered investments. For clarity and to allow a comprehensive view, the following policies apply to bank deposit accounts. The County Treasurer will determine the optimal use and mix of bank accounts and investments in executing the Pool's objectives of safety, liquidity, and yield, in the best interests of the County.

a) **Public Investment Money Market Accounts:** A PIMMA is a bank deposit account which is collateralized per CGC §53651 and §53652. These accounts are bank accounts by code, not investments. Nevertheless, the County Treasurer's policy shall be to treat them as investments for purposes of management, internal controls, oversight, and portfolio statistics. Unlike typical investments, funds may be withdrawn at any time without a dollar limit or penalty, but the number of withdrawals per month is usually limited. Further, any bank accepting a deposit of public funds must pledge securities as collateral pursuant to CGC §53651 and §53652 to secure the principal balance.

- The securities must be held in trust for safekeeping by an independent third-party custodian.
- The market value of the securities to be held in trust depends on the type of securities but is typically 110% of the principal balance.
- Other conditions and restrictions apply as specified by the above code sections.

PIMMAs offer multiple levels of safety to protect County funds. The first level of protection is the bank's own assets and equity. However, if those were inadequate and the bank failed, then the FDIC typically orchestrates efforts to find a purchaser or other solution to make depositors whole, and if that also was inadequate, then per CGC §53665, the Treasurer could demand the custodian to convert the pledged securities to cash for the benefit of the County.

b) **Fee Credit Accounts:** Based on average balances maintained, many banks offer credits against banking fees. For checking and other transactional bank accounts, which do not earn interest, the effective return offered through fee credits on average balances may at times be superior to traditional investment alternatives. The County Treasurer's policy regarding bank account balances therefore shall be to optimize those balances based on a risk-adjusted net rate of return, with fee avoidance being considered a cash return, relative to other investments.

c) **Cannabis:** Cash from cannabis taxation and licensing activities are not commingled into the Investment Pool. Cannabis cash and interest earned on deposits are segregated into separate bank accounts from the Investment Pool bank accounts.

14. PROHIBITED INVESTMENTS

- 14.1 State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to, mutual funds (other than money market funds as described above), unregulated and/or un-rated Pools or trusts, collateralized mortgage obligations and futures and options.
- 14.2 In accordance with CGC section §53601.6, investments in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited. Investment in any security that could result in a zero-interest accrual if held to maturity is prohibited. Purchasing or selling securities on margin is prohibited.

15. PORTFOLIO RISK MANAGEMENT

- 15.1 Mitigating Credit Risk in the Portfolio: Credit risk is the risk that a security or a portfolio will lose some or all its value due to a real or perceived change in the ability of the issuer to repay its debt. The Treasurer shall mitigate credit risk by adopting the following strategies:
- a) The diversification requirements included in section 13 of this policy are designed to mitigate credit risk in the portfolio.
 - b) No more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies, and sponsored enterprises.
 - c) The County may elect to sell a security prior to its maturity and record a gain or loss to improve the quality, liquidity, or yield of the portfolio in response to market conditions or the County's risk preferences.
 - d) If the securities owned by the County are downgraded by Moody's, S&P, or Fitch to a level below the quality required by this policy, it shall be the County's policy to review the credit situation and decide as to whether to sell or retain such securities in the portfolio. The Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the loss in value, the economic outlook for the issuer, and other relevant factors.
 - e) The Treasurer will continue to monitor and reevaluate the security on an ongoing basis to reaffirm or change the decision to hold a downgraded security.
 - f) If a decision is made to retain a downgraded security in the portfolio, the status of the investment will be reported quarterly to the BOS.
- 15.2 Mitigating Market Risk in the Portfolio: Market risk is the risk that the portfolio will decline in value (or will not optimize its value) due to changes in the general level of interest rates. The County recognizes that, over time, longer-term portfolios generally achieve higher returns. On the other hand, longer-term portfolios have a higher volatility of return. The County shall mitigate market risk by providing adequate liquidity for cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The County further recognizes that certain types of securities, including variable rate securities, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The County, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- a) All investments are categorized according to the period from settlement date to maturity date. Market circumstances and risk-return calculations for increased yield may require an extended schedule. In no event shall more than 75 percent of the funds available be invested for longer than one year.
- b) The maximum stated final maturity of individual securities in the portfolio shall be five years, except as otherwise stated in this policy. The five-year maturity of callable securities is measured to the final maturity date, not to a call date.
- c) Maturity of investments should be governed by the Treasurer's demand for funds through analysis of revenue and expenditure activity over prior periods. The portfolio shall be structured in such a manner that securities mature concurrent with cash needs.

15.3 Mitigating Reinvestment Risk in the Portfolio: Reinvestment risk is the risk that cash flows from securities will be reinvested at interest rates that are lower than the rate of the original investment. Securities that are highly subject to reinvestment risk include mortgage-backed and callable securities. The County, therefore, adopts the following strategies to control and mitigate its exposure to reinvestment risk:

- a) The portfolio shall include securities with a range of durations and maturities.
- b) Investment in callable securities is limited to 50%.

16. DIVERSIFICATION

The Treasurer will diversify the Pool's Investments by security type and institution to achieve a diversified mix of independent maturities. See specific requirements in sections 13 and 15.1 of this policy.

17. MAXIMUM MATURITIES

Investment purchases shall not include securities maturing more than five years from the date of settlement unless previously approved by the BOS. If approved by the BOS, reserve funds may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds. Board approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit. Purchases of investments shall not include securities with settlement dates more than 45 days from the purchase date.

18. REVIEW OF INVESTMENT PORTFOLIO

The Securities held by the Investment Pool must follow section 13 of this policy, at the time of purchase. The Treasurer, shall at least annually, review the portfolio to identify any securities that may not comply with section 13 of this policy after the date of purchase and establish a procedure to report to the TOC and the BOS any major or critical incidences of non-compliance identified through review of the portfolio.

19. INVESTMENT POOLS & MUTUAL FUNDS

Shares of beneficial interest issued by diversified management companies that are money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.), which only invest in direct obligations in U.S. Treasury bills, notes, and bonds, U.S. Government Agencies, Municipal Debt, and repurchase agreements with a weighted average maturity of 60 days or less. Money Market Mutual Funds that do not maintain a

constant Net Asset Value (NAV) are prohibited. Money market mutual funds are not required to conform to the restrictions detailed in this IPS. The Treasurer shall be required to investigate money market mutual funds prior to investing and perform a periodic review at least annually thereafter while the funds are invested in the money market mutual fund. Specific requirements set forth in section 13, Figure 1, Mutual Funds and Money Market Mutual Funds of this policy.

20. COLLATERALIZATION

In accordance with CGC §53601, collateralization will be required on certificates of deposit and repurchase agreements. Collateralization of any investment will be in accordance with securities approved under this policy. Collateral will always be held by an independent third party with whom the financial institution has a current custodial agreement.

21. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of earning a rate of return throughout budgetary cycles, corresponding with the investment risk constraints and the cash flow needs of the Pool.

22. INVESTMENT POLICY COMPLIANCE ADOPTION

In accordance with CGC §53646, the Investment Policy shall be reviewed and approved by the BOS. The Policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, return, and its relevance to current law, financial conditions, and economic trends.

23. REPORTING AND DISCLOSURE

23.1 Monthly Reporting: Pursuant to CGC §53607, the Treasurer's authority to invest or to reinvest funds or sell or exchange securities so purchased may be delegated by the BOS for a one-year period. The Treasurer shall assume full responsibility for those transactions until the delegation of authority is revoked or expires and shall submit a monthly report of those transactions to the Clerk of the Board.

23.2 Quarterly Reporting: In accordance with CGC §53646, the Treasurer shall submit a quarterly investment report to the BOS, County Executive Office, Auditor-Controller, and TOC within 45 days following the end of the quarter covered by the report. For public benefit, the quarterly report shall be posted on the County's website. This report shall disclose, at a minimum, the following investment information:

- a) The type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments, and moneys.
- b) A description of any funds, investments, or programs that are under the management of contracted parties, including lending programs.
- c) A current market value as of the date of the report and the source of this valuation.
- d) A statement of compliance with the Investment Policy or the way the portfolio is not in compliance.

- e) A statement denoting the ability of the County to meet its expenditure requirements for the next six months or an explanation as to why sufficient money may not be available.

23.3 Annual Reporting: The Treasurer shall prepare annual financial statements in accordance with Generally Accepted Accounting Principles. Any internal or external audit reports shall be presented to the TOC together with a plan of implementation of audit recommendations.

24. TREASURY OVERSIGHT COMMITTEE

24.1 The BOS shall establish a TOC pursuant to CGC §27131. The Committee shall consist of between three and eleven members nominated by the Treasurer and confirmed by the BOS. Any changes to the Investment Policy shall be reviewed by the TOC.

24.2 Pursuant to CGC §53646 and §53607, the Treasurer shall annually render to the BOS for review and approval this policy and renew the delegation of investment authority.

24.3 Pursuant to CGC §27137, the TOC is not allowed to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the County Treasury.

25. APPORTIONMENT OF EARNINGS AND COSTS

25.1 Investment earnings shall be apportioned to all Investment Pool participants quarterly based upon the ratio of the average daily balance of each individual fund to the average daily balance of all funds in the Investment Pool. The amount of interest apportioned shall be determined using the accrual method of accounting, whereby interest will be apportioned for the quarter in which it was earned.

25.2 As provided by CGC §27013, §27133 and §27135, the Treasurer shall deduct those administrative costs associated with investing, depositing, banking, auditing, reporting or otherwise handling or managing funds from the gross interest earnings before the interest earnings are apportioned.

26. VOLUNTARY PARTICIPANTS

The Treasurer does not solicit any agency's voluntary entry into the Pool. However, should any agency solicit entry, the agency shall comply with the requirements of CGC section §53684 and provide to the Treasurer a resolution adopted by their governing board stating that they have excess funds available for the purpose of investment. The resolution shall specify the amount to be invested, the person authorized to coordinate the transaction, the anticipated time frame for deposit, and the agency's willingness to be bound to section 27 of this policy, as well as the Treasurer's ability to deduct pro-rata administrative charges permitted by section 25.2 of this policy. Any solicitation for entry into the Investment Pool must have the Treasurer's prior written approval.

27. PARTICIPANT WITHDRAWAL

- 27.1 Investment Pool participants who seek to withdraw funds for normal cash flow purposes of less than \$1 million shall obtain approval from the Santa Barbara County Auditor-Controller. In addition, prior written approval from the Treasurer is required for normal cash flow withdrawals of \$1 million or greater. The Treasurer will honor requests to withdraw funds at a one-dollar net asset value.
- 27.2 Any requests to withdraw funds for the purpose of external investing or depositing funds outside the of the Investment Pool, regardless of the amount, shall be subject to the consent of the Treasurer. In accordance with CGC §27136 et seq. and §27133(h) et seq., such requests for withdrawals must first be made in writing to the Treasurer. These requests are subject to the Treasurer's consideration of the stability and predictability of the Investment Pool.

Assessment of the effect of a proposed withdrawal on the stability and predictability of the investments in the Investment Pool will be based on the following criteria:

- a) The amount of the withdrawal
 - b) The Remaining balance of the total Investment Pool and the agency portion of the Pool
 - c) Current market conditions
 - d) Effect on predicted cash flows
 - e) Determination of sufficient balances remaining to cover the pro-rata administrative charges permitted by section 25.2 of this policy
 - f) The Treasurer has adequate information to make a proper finding that other Investment Pool participants will not be adversely affected
- 27.3 Investment Pool participants withdrawing funds will not recognize GASB 31 fair market value gains or losses, except in extraordinary circumstances as defined by the Treasurer at the time. To protect other Investment Pool participants, participants withdrawing funds for the purpose of external investing or depositing funds outside of the Investment pool shall obtain approval from the Treasurer prior to reinvesting those funds back into the Pool.
- 27.4 All funds withdrawn from the Investment Pool for the purpose of investing or depositing those funds outside the Investment Pool shall become the responsibility of the legislative body requesting the action. The Treasurer shall in no manner be held responsible or liable for withdrawal of funds or investments purchased with said funds. The request of any legislative body, by resolution, authorizing the withdrawal of funds for deposit or investment outside the Investment Pool must provide a disclaimer of liability. The Treasurer shall not honor such withdrawal request if a disclaimer clause is not provided.

28. LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will be incorporated into our pool management and into this policy.

Appendix I

GLOSSARY OF TERMS

ACCRUED INTEREST – The amount of interest that is earned, but unpaid since the last payment date.

BANKERS ACCEPTANCES – A draft or bill of exchange accepted by a bank or trust company. The accepting institution, as well as the issuer, guarantees payment of the bill. With the credit strength of a bank behind it, the bankers acceptance usually qualifies as a money market instrument. In its simplest and most traditional form, a bankers acceptance is merely a check drawn on a bank by an importer or exporter of goods.

BASIS POINT - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

BID - The indicated price at which a buyer is willing to purchase a security or commodity.

BOOK ENTRY – The system maintained by the Federal Reserve, by which most money market securities are delivered to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment).

BOOK VALUE - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

BROKER/DEALER – Any person engaged in the business of effecting transactions in securities in this state for the account of others or for her/his own account. Broker/dealer also includes a person engaged in the regular business of issuing or guaranteeing options with regard to securities not of her/his own issue.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION (CDIAC)

The CDIAC provides information, education, and technical assistance on public debt and investments to local public agencies and other public finance professionals.

CALLABLE BOND - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

CALL PRICE - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

CALL RISK - The risk to a bondholder that a bond may be redeemed prior to maturity.

CASH SALE/PURCHASE - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

COLLATERALIZATION - Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

COMBINED INVESTMENT POOL – The county maintains a combined Investment Pool with cash and investments which provide cash flow for the funding needs of the participants. The combined Investment Pool is managed by the Santa Barbara County Treasurer. The combined Investment Pool is carried at amortized cost and includes accrued interest.

COMMERCIAL PAPER - An unsecured short-term promissory note issued by banks, corporations, and other borrowers with temporarily idle cash, with maturities ranging from 2 to 270 days. Such instruments are usually discounted, although some are interest bearing. It is issued only by top-rated concerns and is nearly always backed by bank lines of credit.

CONFIRMATION – Formal memorandum from a broker/dealer to the Treasurer giving the details of a securities transaction, i.e., purchase or sale.

COUPON RATE - The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

CREDIT QUALITY - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

CREDIT RISK - The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CURRENT YIELD (CURRENT RETURN) - A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

CUSTODIAN/CUSTODY – The financial institution where the investments purchased by the County Treasury are held.

DELIVERY VERSUS PAYMENT (DVP) - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

DERIVATIVE - Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

DISCOUNT - The amount by which the par value of a security exceeds the price paid for the security.

DIVERSIFICATION – The spreading of risk by investing in assets among a range of security types by sector, maturity, and quality rating.

DURATION - A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

EARNINGS APPORTIONMENT – The quarterly interest distribution to the Investment Pool participants where the actual investment costs incurred by the Treasurer are deducted from the interest earnings of the Pool.

FAIR VALUE - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL FUNDS - Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend Fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

FEDERAL FUNDS RATE - Interest rate charged by one institution lending Federal funds to the other.

FITCH IBCA, INC. (FITCH) – One of the three best known rating agencies in the United States, the others being Moody's Investment Service, Inc. (Moody's), and Standard and Poor's Corporation (S&P). The County Treasury uses all three as its primary rating sources in determining eligibility for securities purchases.

GUARANTEED INVESTMENT CONTRACTS (GICS) – An agreement acknowledging receipt of funds for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

GOVERNMENT SECURITIES - An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

HIGHLY LIQUID – The most eminent type of security that is easily converted to cash because there are many interested buyers and sellers to trade large quantities at a reasonable price.

IDLE FUNDS – funds in the combined Investment Pool not required for immediate cash needs.

ILLIQUID – A security that is difficult to buy or sell or has a widespread between bid price and offer price in the secondary market. There are few buyers and sellers willing to trade large quantities at a reasonable price.

INFORMAL COMPETITIVE BID – A verbal or written bid submitted to the County Treasury by a broker/dealer for a specific issue at a specific price or yield.

INTEREST RATE - See "Coupon Rate."

INTEREST RATE RISK - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

INTERNAL CONTROLS - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

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

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

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

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

LIQUID - An asset that can be converted easily and quickly into cash because of the willingness of interested buyers and sellers to trade large quantities at a reasonable price.

LOCAL AGENCY INVESTMENT FUND (LAIF) – The State of California Pool in which money of local agencies is Pooled as a method for managing and investing local funds.

LOCAL AGENCY OBLIGATION – An indebtedness issued by a local agency, department, board, or authority within the State of California.

LONG-TERM – A security with the maturity greater than one year.

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

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

MARKET VALUE – The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

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

MEDIUM TERM NOTES – Corporate Notes and Deposit Notes that are obligations of banks, corporations, and insurance companies. They are issued at a specific rate of return for a specific period.

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

MOODY'S INVESTORS SERVICE, INC. (Moody's) - One of the three best known rating agencies in the United States, the others being Standard and Poor's Corporation (S&P) and Fitch IBCA, Inc. (Fitch). The County Treasury uses all three as its primary rating sources in determining eligibility for securities purchases.

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

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

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD) - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

NEGOTIABLE CERTIFICATE OF DEPOSIT – A Money Market instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period that is traded in the secondary markets.

NET ASSET VALUE - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.

NO LOAD FUND - A mutual fund which does not levy a sales charge on the purchase of its shares.

NOMINAL YIELD - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

NONCALLABLE – A bond that is exempt from any kind of redemption for a stated period.

NOTE – A written promise to pay a specific amount to a certain entity on demand or on a specified date.

OFFER - An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

PAR - Face value or principal value of a bond, typically \$1,000 per bond.

PORTFOLIO – Combined holding of more than one stock, bond, cash equivalent, or asset. The purpose of a portfolio is to reduce risk by diversification.

POSITIVE YIELD CURVE - A chart formation that illustrates short-term securities having lower yields than long-term securities.

PREMIUM - The amount by which the price paid for a security exceeds the security's par value.

PRIMARY DEALER – A group of securities dealers that 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 the Securities and Exchange Commission (SEC) registered securities broker-dealers and banks.

PRIME RATE - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

PRINCIPAL - The face value or par value of a debt instrument. Also, may refer to the amount of capital invested in each security.

PROSPECTUS - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

PRUDENT INVESTOR RULE - An investment standard where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing

funds. The test of whether the standard is met is if a prudent person acting in such a situation would engage in similar conduct to ensure investments safeguard principal and maintain liquidity.

PUT OPTION – The sale of an option to another party gives them the right to sell to the Investment Pool a security at a specified price within a specified time period.

RATING – Evaluation of financial institutions' investment and credit risks by professional rating services. The County Treasury utilizes the ratings designations of Moody's, S&P and Fitch.

REGISTERED STATE WARRANT – A short-term obligation of a state governmental body issued in anticipation of revenue.

REGULAR WAY DELIVERY - Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.

REINVESTMENT RISK - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

REPURCHASE AGREEMENT (REPO) - An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO) - An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

SAFEKEEPING – A custodian bank's action to store and protect an investor's securities by segregating and identifying the securities.

SECURITIES AND EXCHANGE COMMISSION (SEC) – Agency created by Congress to protect investors in securities transactions by administering securities laws. The statutes administered by the SEC are designed to promote full public disclosure and protect the investing public against malpractice in the securities market.

SECURITIES LENDING – A transaction wherein the Investment Pool transfers its securities to broker/dealers and other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

SERIAL BOND - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

SHORT-TERM – A security with a maturity of one year or less.

STANDARD AND POOR'S CORPORATION (S&P) – One of the three best known rating agencies in the United States, the others being Moody's Investment Service, Inc. (Moody's), and Fitch IBCA, Inc. (Fitch). The County Treasury uses all three as its primary rating sources in determining eligibility for securities purchases.

SWAP - Trading one asset for another.

TOTAL RETURN - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return.

TREASURY BILLS - Short-term U.S. government non-interest-bearing debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

TREASURY NOTES - Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from \$1,000 to \$1 million or more.

TREASURY BONDS - Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of \$1,000. Currently, the longest outstanding maturity for such securities is 30 years.

VOLATILITY - A degree of fluctuation in the price and valuation of securities.

WEIGHTED AVERAGE MATURITY (WAM) - The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

WHEN ISSUED (WI) - A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

YIELD - The current rate of return on an investment security generally expressed as a percentage of the security's current price.

YIELD-TO-CALL (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date. **Yield Curve** - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

YIELD-TO-MATURITY - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

ZERO-COUPON SECURITIES - Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.