Vice Chancellor for Finance and Administration (http://vcfa-dev.uark.edu/)

Fayetteville Policies and Procedures 314.0

Investment Policy – Operating Funds

I. INTRODUCTION

The University of Arkansas (the "university") is a public, co-educational, land-grant research university located in Fayetteville, Arkansas. The affairs of the university are controlled by the university's Board of Trustees, which has designated investment authority to the system chief financial officer, who in turn will work with the Campus Investment Advisory Committee.

The purpose of this Investment Policy (the "policy") is to set general guidelines to provide a clear understanding of the investment objectives of the university's operating funds ("funds"). The policy shall be used as a guideline for the Campus Investment Advisory Committee and the university's administrative officers as well as for the investment advisor, the investment managers and the custodial agents hired by the university.

The university's investment manager, who is also referred to as the director of cash management, is authorized to invest the university's funds in investments consistent with this policy and other applicable policies and state law.

II. INVESTMENT ADVISORY COMMITTEE

The university has established a Campus Investment Advisory Committee to oversee and monitor management of the operating funds portfolio. The Campus Investment Advisory Committee shall consist of three members; the vice chancellor for finance and administration, the associate vice chancellor for finance, the university's investment manager, and/or others designated by the system CFO.

The Campus Investment Advisory Committee will be charged with the following responsibilities:

A. Review and update the policy at least annually in response to changes in applicable laws, changing economic and market conditions, and current income needs of the university
B. Monitor the investment program to insure that proper controls are in place to ensure the integrity and security of the university's portfolios
C. Assure that the university is in compliance with the university's written investment policies

D. Maintain a list of broker/dealers authorized to transact investment trades with the university
E. Meet periodically to deliberate such topics as economic outlook, portfolio diversification, maturity structure, cash flow forecasts, potential risks and the target rate of return on the investment portfolio

The committee may retain the services of a third-party investment advisor, registered under the Investment Advisers Act of 1940 or exempt from registration, to assist in performing its duties.

III. OBJECTIVES

The fund's investment objectives, in order of priority, are the following:

A. **Safety of Principal** – Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
B. **Maintenance of Liquidity** – The university's funds shall remain sufficiently liquid to enable the university to meet all operating requirements which might be reasonably anticipated, including but not limited to payroll, accounts payable, capital projects, debt service and any other payments.
C. **Return on Investment** – The university's funds shall be managed with the objective of attaining a market rate of return (or higher) throughout the budgetary and economic cycles, taking into account the university's risk constraints and cash flow characteristics of the portfolio.

IV. INVESTMENT PORTFOLIOS

Maintenance of adequate liquidity to meet the cash flow needs of the university is essential. Accordingly, to the extent possible, the university's funds will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Whenever practical, selection of investment maturities will be consistent with the known cash requirements of the university in order to minimize the forced sale of securities prior to maturity.

For purposes of the policy, the fund's assets shall be segregated into three categories based on expected liquidity needs and purposes: Tiers 1 through 3.

A. **Tier 1 Portfolio**

Assets categorized as Tier 1 shall be invested in permitted investments maturing in twelve (12) months or less. Because of the difficulties inherent in accurately forecasting cash flow requirements, a portion of the portfolio shall be continuously invested in readily available funds such as money market mutual funds, bank deposits or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

B. **Tier 2 Portfolio**
The Tier 2 Portfolio shall be invested in permitted investments with a stated maturity of not more than five (5) years from the settlement date of purchase. To manage the volatility of the portfolio, the university shall determine an appropriate duration target not to exceed 2½ years.

C. **Tier 3 Portfolio**
The Tier 3 Portfolio shall be invested in permitted investments with a stated maturity of not more than ten (10) years from the settlement date of purchase. The Tier 3 Portfolio may also be invested in external investment pools sponsored by the Board of Trustees of the University of Arkansas or the University of Arkansas Foundation, Inc. To manage the volatility of the portfolio, the university shall determine an appropriate duration target not to exceed 4½ years.

D. ASSET ALLOCATION
The asset allocation guidelines listed below have been established by the committee to achieve the fund's objectives.

	Minimum	Preferred Range	Maximum
Tier 1 Portfolio	10%	15% - 35%	80%
Tier 2 Portfolio	20%	30% - 50%	65%
Tier 3 Portfolio	0%	20% - 40%	40%

The asset allocation ranges have been defined to reflect the cyclical nature of the fund's cash flows. In allocating funds, the committee will consider the risk of the aggregate portfolio in addition to the risk of the individual tiers. At the discretion of the Campus Investment Advisory Committee, the allocations to individual tiers may be changed periodically in response to market conditions or anticipated liquidity needs.

V. STANDARD OF PRUDENCE
Those responsible for the management of the university's investment portfolio will perform their duties in a manner consistent with the standard of a "prudent investor" – "In making investments, the fiduciaries shall exercise the judgement and care, under the circumstances then prevailing, which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to

it, not in regard to speculation, considering probable safety of capital as well as probable income."

The university's investment manager and designees, exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price change provided these deviations are reported in a timely manner to the Investment Advisory Committee and that reasonable and prudent action is taken to control adverse developments.

VI. ETHICS AND CONFLICTS OF INTEREST

The committee and those responsible and involved with the investment process shall seek to act responsibly as custodians of the public trust. They will 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.

VII. AUTHORIZED INVESTMENTS

The university is authorized to invest in the following types of securities under this policy:

A. **U.S. Treasury & Government Guaranteed –** U.S. Treasury obligations, and obligations the principal and interest of which are backed or guaranteed by the full faith and credit of the U.S. government.
B. **Federal Agency / Government Sponsored Enterprise Debt** – Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. federal agency, instrumentality or government-sponsored enterprise (GSE).
C. **Municipals –** Obligations issued or guaranteed by any state, territory or possession of the United States, political subdivision, public corporation, authority, agency board, instrumentality or other unit of local government of any U.S. state or territory.
D. **Corporate Notes –** U.S. dollar denominated corporate notes, bonds or other debt obligations issued or guaranteed by a domestic or foreign corporation, financial institution, non-profit or other entity.
E. **Commercial Paper –** U.S. dollar denominated commercial paper issued or guaranteed by a domestic or foreign corporation, company, financial institution, trust or other entity.
F. **Bankers' Acceptances** – Bankers' acceptances issued, drawn on or guaranteed by a U.S. bank or U.S. branch of a foreign bank.
G. **Negotiable Certificates of Deposit –** Negotiable certificates of deposit issued by banks organized under the laws of this state or by national banks organized under the laws of the United States.
H. **Insured & Collateralized Bank Deposits –** Interest bearing time certificates of deposit, savings accounts, or deposit accounts fully insured by the Federal Deposit

Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA), or collateralized in accordance with university policy.

I. **Repurchase Agreements** – Repurchase agreements that meet the following requirements:
   1. Governed by a written SIFMA Master Repurchase Agreement, which specifies securities eligible for purchase and resale, and which provides the unconditional right to liquidate the underlying securities should the counterparty default or fail to provide full timely repayment.
   2. Counterparty is a Federal Reserve Bank, a Primary Dealer as designated by the Federal Reserve Bank of New York or a nationally chartered commercial bank.
   3. Securities underlying repurchase agreements are delivered to a third-party custodian under a written custodial agreement that must be of deliverable or tri-party form. Securities must be held in the university's custodial account or in a separate account in the name of the university.
   4. Acceptable underlying securities include only securities that are direct obligations of, or that are fully guaranteed by the United States, an agency of the United States or a United States government sponsored enterprise, including U.S. agency issued mortgage-backed securities.
   5. Underlying securities must have an aggregate current market value, including accrued interest, of at least 102% of the purchase price plus current accrued price differential at the close of each business day.
   6. The term of any repurchase agreement transaction must be 90 days or less.

J. **Money Market Funds** – Shares in open-end and no-load money market funds, provided such funds are registered under the Investment Company Act of 1940 and operate in accordance with Rule 2a-7. Before investing in any mutual fund, the university shall obtain a copy of the fund's prospectus and review permitted investments, fees and management structure. At no time shall the university own more than 20% of the total net assets of the mutual fund series.

K. **Fixed Income Mutual Funds and ETFs** – Shares in open-end and no-load fixed-income mutual funds or exchange-traded funds (ETFs) whose underlying investments would be permitted for purchase under this policy and all its restrictions.

L. **External Investment Pools** – Any external investment pool sponsored by the Board of Trustees of the University of Arkansas or the University of Arkansas Foundation, Inc.

VIII. PORTFOLIO DIVERSIFICATION

The university's funds shall be diversified to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. The maximum percentage of the university's funds permitted in each eligible security based on book value at the date of acquisition shall be as follows:

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement[1]	Maximum Maturity
U.S. Treasury	100%	100%	N/A	10 Years (10 year avg. life[4] for GNMA)
Federal Agency / Government Sponsored Enterprise	100%	35%[3]	Highest short-term[4] or one of the two highest long-term rating categories (A-1/P-1, AA-/Aa3 or equivalent)	10 Years
Municipals	30%	5%[2]	Highest short-term[4] or one of the three highest long-term rating categories (SP-1/MIG 1, A-/A3 or equivalent)	10 Years
Corporate Notes	35%	5%[2]	Highest short-term[4] or one of the three highest long-term rating categories (A-1/P-1, A-/A3 or equivalent)	10 Years
Commercial Paper	35%	5%[2]	Highest short-term rating category[4](A-1/P-1, or equivalent)	270 Days
Bankers' Acceptances	10%	5%[2]	Highest short-term rating category[4](A-1/P-1, or equivalent)	180 Days
Negotiable Certificates of Deposits	25%	5%[2]	Highest short-term[4] or one of the three highest long-term rating categories (A-1/P-1, A-/A3 or equivalent)	5 Years

Collateralized Bank Deposits	50%	25%	None, if fully insured or collateralized.	2 Years
Insured Bank Deposits	25%	FDIC limitfor insurance	None, if fully FDIC-insured.	2 Years
Repurchase Agreements	50%	50%	Counterparty (or if the counterparty is not rated by a Nationally Recognized Statistical Rating Organization "NRSRO", then the counterparty's parent) must be rated in the highest short-term rating category (A-1/P-1, or equivalent)	90 days
Money Market Funds	75%	50%	AAAm	N/A
Fixed-IncomeMutual Funds & ETFs	40%	20%	N/A	N/A
External Investment Pool	50%	50%	N/A	N/A

Notes:
[1] Denotes minimum rating by at least two SEC-registered Nationally Recognized Statistical Rating Organization ("NRSRO"), unless otherwise noted.
[2] Maximum across all non-government permitted investment sectors (excluding treasuries, U.S. federal agencies and government sponsored enterprises) is 5% combined per issuer.
[3] Maximum exposure to any one federal agency is 35%.
[4] Short-term ratings apply to securities with maturities of under one year

IX. SECURITY DOWNGRADES

In the event that any security held in the university's funds is downgraded below the minimum required credit rating for purchase, the Investment Advisory Committee shall be notified, in writing, within five business days after the security fails to meet the credit quality limitations.

X. PROHIBITED INVESTMENTS

The following are not permitted for investments of Tier 1, 2 and 3 Portfolios without prior approval of the Investment Advisory Committee:

- Trading for speculation
- Derivatives (other than callables and traditional floating or variable-rate instruments)
- Mortgage-backed interest only structures (I/Os)
- Inverse or leverage floating-rate and variable-rate instruments
- Currency, equity, index, and event linked notes (e.g. range notes) or other structures that could return less than par at maturity
- Convertible, high yield and non-U.S. denominated debt
- Short sales
- Use of leverage
- Futures and options
- Equities, commodities, currencies and hard assets

XI. COLLATERALIZATION OF BANK DEPOSITS

The university requires that all cash and other bank deposits maintained in any financial institution be either insured or collateralized, including bank deposits and non-negotiable certificates of deposit. All bank deposits of the university in excess of the amount protected by federal deposit insurance shall be collateralized in accordance with university policy.

The university shall have either legal title to, or a prior perfected security interest in, the investments constituting the collateral. Collateral shall always be held by an independent third-party custodial agent. A clearly marked safekeeping receipt must be supplied to the university as evidence of ownership. The right of collateral substitution is allowed with the advanced written permission of the university.

XII. SELECTION OF BROKER/DEALERS

The Campus Investment Advisory Committee will establish and maintain a list of eligible brokers, dealers and banks with which investments transactions can be made. These financial institutions will be selected by creditworthiness (minimum capital requirement of $10,000,000) and at least five years of operation. Qualified firms will be limited to "primary" dealers and other dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

Before an organization can conduct investment business with the university, it must confirm in writing that it has received and reviewed the university's investment policy. Further, the broker/dealer must complete and submit a "Broker/Dealer Request for Information." The following information will be required:

A. Audited financial statements
B. Regulatory reports on financial condition
C. Proof of Financial Institution Regulatory Authority (FINRA) certification and of state registration
D. Any additional information requested by the university's investment manager in evaluating the creditworthiness of the institution
E. Evidence of being in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.

The university shall designate broker/dealers on an annual basis. If an external, third-party investment advisor is engaged, the university's investment manager may designate responsibility for maintaining the list of approved broker/dealers to the investment advisor.

XIII. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

All securities purchases and sales will be transacted only with designated broker/dealers through a formal and competitive process requiring the solicitation and evaluation of at least three bids/offers, taking into consideration current market conditions. Electronic bids will be accepted. The university will accept the bid which, in the sole judgment of the university's investment manager or his/her designee: (a) offers the highest rate of return within the maturity required; (b) optimizes the investment objective of the overall university's funds, including diversification requirements. When selling a security, the university will select the bid that generates the highest sale price.

XIV. ENGAGEMENT OF THIRD-PARTY INVESTMENT ADVISORS

The university may engage one or more qualified firms to provide investment advisory services for the university. Investment advisory firms who desire to provide investment management services to the university will be provided with a current copy of the university's investment policy. Before an organization can provide investment services to the university, it must confirm in writing that it has received and reviewed the university's investment policy.

Only firms meeting the following requirements will be eligible to serve as investment advisor for the university:

- Registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940 or exempt from registration
- Must have and provide Form ADV, Part II, A and B to the university
- Must be registered to conduct business in the state of Arkansas

Any firm engaged by the university to provide investment services shall:

- Maintain a list of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the state of Arkansas
- Provide monthly reports of transactions and holdings to the university's investment manager
- Provide quarterly performance reports that display investment performance in comparison to the university's investment benchmarks as outlined in section XVII: Investment Performance Objectives

XV. SAFEKEEPING AND CUSTODY

All investment securities purchased by the university or held as collateral on deposits or investments shall be held by the university or by a third-party custodial agent that may not otherwise be counterparty to the investment transaction.

All securities in the university's funds will be held in the name of the university and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs.-payment basis. The custodial agent shall issue a safekeeping receipt to the university listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the custodial agent will provide reports that list all securities held for the university, the book value of holdings and the market value as of month-end.

The university officials and representatives of the custodial agent responsible for, or in any manner involved with, the safekeeping and custody process of the university shall be bonded in such a manner as to protect the university from losses from malfeasance and misfeasance.

Original copies of non-negotiable certificates of deposit and confirming copies of all other investment transactions must be delivered to the university or its custodial agent.

XVI. INTERNAL CONTROLS

The university's investment manager shall establish a framework of internal controls governing the administration and management of the university's funds. Such controls shall be designed to prevent and control losses of the university monies arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by any personnel. The internal control structure shall be 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 require estimates and judgments by management.

VII. INVESTMENT PERFORMANCE OBJECTIVES

The university's funds will be designed to obtain at least a market level rate of return, given budgetary and economic cycles, commensurate with the university's investment risk and cash flow needs. The returns on the portfolios will be compared on a quarterly basis to indices of U.S. Treasury securities having similar maturities or to other appropriate benchmarks. For funds having a weighted average maturity greater than 90 days, performance will be computed on a total return basis.

A. **Tier 1 Portfolio**
   The performance of this portfolio should be equal to or greater than the 90-day Treasury Bill Index.
B. **Tier 2 Portfolio**
   Over a three-year period, the annualized total return of the portfolio should exceed the annualized total return of the Bank of America Merrill Lynch 1-3 year Treasury Index.
C. **Tier 3 Portfolio**
   Over a three-year period, the annualized total return of the Portfolio should exceed the annualized total return of the Bank of America Merrill Lynch 1-10 year Treasury Index.

VIII. REPORTING

The university's investment manager or external investment advisor shall prepare a monthly portfolio report including: (i) a listing of the existing portfolios in terms of investment securities, amortized book value, maturity date, yield-on-cost, market value, credit ratings, and other features deemed relevant and (ii) a listing of all transactions executed during the month.

The university's investment manager or external investment advisor shall prepare and submit to the Investment Advisory Committee a "Quarterly Investment Report" that summarizes (i) recent market conditions, economic developments, and anticipated investment conditions, (ii) the investment strategies employed in the most recent quarter, (iii) a description of all securities held in investment portfolios at month end, (iv) the total rate of return for the quarter and year-to date versus appropriate benchmarks, and (v) any areas of policy concern warranting possible revisions to current or planned investment strategies. The market values presented in these reports will be consistent with GASB account guidelines pertaining to the valuation of investments and the treatment of unrealized gains/losses.

XIX. Glossary of Terms

- **Accrued Interest:** Interest earned, but which has not yet been paid or received.
- **Ask Price:** Price at which a broker/dealer offers to sell a security to an investor. Also known as "offered price."
- **Amortized Book Value:** The recorded amount of a security, adjusted for any applicable amortization of premium or discount. Eventually, once all amortization has been recorded, the amortized value of a security will equal its face value.
- **Arbitrage Rebate Regulations:** The Internal Revenue Code of 1986 requires that certain earnings on investments of tax-exempt bond proceeds be paid to the United States. The amount that must be rebated is based on the difference between the amount actually earned on investments and the amount that would have been earned if those investments had a yield equal to the yield on the issue.
- **Bankers' Acceptance:** A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.
- **Benchmark:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.
- **Bid Price:** Price at which a broker/dealer offers to purchase a security from an investor.
- **Bond:** Financial obligation for which the issuer promises to pay the bondholder (the purchaser or owner of the bond) a specified stream of cash flows including periodic interest payments and a principal repayment.
- **Broker:** Brings buyers and sellers together for a commission.
- **Broker-Dealer:** A person or firm in the business of buying and selling securities, operating as both a broker and a dealer, depending on the transaction. A brokerage acts as a broker (or agent) when it executes orders on behalf of clients, whereas it acts as a dealer (or principal) when it trades for its own account.
- **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, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.
- **Commercial Paper:** An unsecured promissory note with a fixed maturity no longer than 270 days. Public offerings are exempt from SEC regulation.

- **Corporate Notes:** Unsecured promissory notes issued by corporations to raise capital.
- **Counterparty:** The other party in a two party financial transaction.
- **Counterparty Risk**: Refers to the risk that the other party to a transaction will fail in its related obligations. For example, the bank or broker dealer in repurchase agreement.
- **Credit Risk:** Potential that a borrower or counterparty will fail to fulfill an obligation.
- **Custodial Bank:** A firm that holds securities and other assets in electronic or physical form for safekeeping so as to minimize the risk of their theft or loss.
- **Dealer:** A firm in the business of buying and selling securities for their own account. A dealer is defined by the fact that it acts as principal in trading for its own account, as opposed to a broker who acts as an agent in executing orders on behalf of its clients.
- **Delivery versus Payment:** Delivery of securities with an exchange of money for the securities.
- **Depository Bank:** A for-profit or non-profit financial organization that takes money from clients and places it in any of a variety of deposit or investment vehicles for the benefit of both the client and the organization.
- **Derivatives:** A contract between two or more parties whose value is based on an agreed-upon underlying financial asset, index or security such as bonds, commodities, currencies, interest rates, market indexes and stocks.
- **Diversification:** Allocation investment funds among a variety of securities offering independent returns.
- **Duration:** A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.
- **Federal Agency:** Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets, also referred to as government sponsored enterprises or GSEs. The largest are Ginnie Mae, Fannie Mae, Freddie Mac, Federal Home Loan Banks, Federal Farm Credit Bank and Tennessee Valley Authority.
- **Federal Deposit Insurance Cooperation (FDIC):** Federal agency that insures deposits at commercial banks, currently to a limit of $250,000 per depositor per bank.
- **Financial Industry Regulatory Authority (FINRA):** A self-regulatory organization under the Securities Exchange Act of 1934, which is responsible for regulatory oversight of all securities firms that do business with the public.

- **Floating Rate Security (FRN or "floater"):** A bond with an interest rate that is adjusted according to changes in an interest rate or index. Differs from variable-rate debt in that the changes to the rate take place immediately when the index changes, rather than on a predetermined schedule. See also "Variable Rate Security."
- **Foreign Notes:** A debt security issued by a national government denominated in a foreign currency or U. S. dollars.
- **Government Accounting Standards Board (GASB):** A non-profit organization that establishes generally accepted accounting principles (GAAP) for state and local governments in the United States.
- **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."
- **Government Sponsored Enterprise (GSE):** A financial services corporation created by the United States Congress. Their intended function is to enhance the flow of credit to targeted sectors of the economy and to make those segments of the capital market more efficient and transparent, and to reduce the risk to investors and other suppliers of capital.
- **Instrumentality:** An organization that serves a public purpose and is closely tied to a federal and/or state government, but is not a government agency. Many instrumentalities are private companies, and some are chartered directly by state or federal government.
- **Investment Adviser:** A company that provides professional advice managing portfolios, investment recommendations and/or research in exchange for a management fee.
- **Investment Adviser's Act of 1940:** Legislation passed by Congress in 1940 that requires all investment advisers to register with the Securities and Exchange Commission. The Act is designed to protect the public from fraud or misrepresentation by investment advisers.
- **Liquidity:** The ability of ease with which an asset can be converted into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be transacted at those quotes.
- **Local Government Investment Program (LGIP):** An investment by local governments in which their money is pooled as a method for managing local funds.
- **Long-Term Credit Rating:** Probability factor of a security issuer going into default over a long time frame.
- **Market Value:** The price at which a security is trading and could presumably be purchased or sold.

- **Master Repurchase Agreement:** A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.
- **Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.
- **Money Market Fund:** An investment whose objective is to earn interest for shareholders while maintaining a net asset value (NAV) of $1 per share. A money market fund's portfolio is comprised of short-term (less than thirteen months to maturity) securities representing high-quality, liquid debt and monetary instruments. Rules related to the management of money market funds will change in 2016; subsequently, not all money market funds will maintain a NAV of $1.
- **Municipal Obligations:** A form of debt obligation issued by states, provinces, cities or towns, typically used to fund municipal and local projects.
- **Mutual Fund:** Portfolio of securities professionally managed by a registered investment company that issues shares to investors. Many different types of mutual funds exist (e.g., bond, equity, and money market funds); all except money market funds operate on a variable net asset value (NAV).
- **Nationally Recognized Statistical Rating Organization (NRSRO):** A credit rating agency which issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. Several examples include Moody's Investor Service, Standard & Poor's and Fitch Ratings.
- **Net Assets:** The total assets of a business minus its total liabilities.
- **No-Load:** A mutual fund which does not levy a sales charge on the purchase of its shares. Transaction fees will still apply.
- **Offer:** The price at which a seller is willing to sell a security.
- **Open End:** A type of mutual fund that does not have restrictions on the amount of shares the fund will issue. If demand is high enough, the fund will continue to issue shares no matter how many investors there are. Open-end funds also buy back shares when investors wish to sell.
- **Portfolio:** Collection of securities held by an investor.
- **Primary Dealer:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.
- **Prudent Investor Standard:** Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall

act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. It is more stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

- **Rate of Return:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.
- **Repurchase Agreement (RP or Repo):** An agreement under which the holder of securities sells these securities to an investor with a commitment to repurchase the securities at a fixed price on a fixed date. The security's "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.
- **Safekeeping:** A service rendered by banks for a fee whereby securities and valuables of all types and descriptions are held by the bank for protection.
- **SEC Rule 15C3-1:** See "Uniform Net Capital Rule."
- **Securities and Exchange Commission (SEC):** Agency created by Congress to protect investors in securities transactions by administering securities legislation.
- **Short Term Rating:** Probability factor of an issuer of debt going into default within a year.
- **Third-Party Safekeeping:** A custodial arrangement where investment securities are held by a firm that is not otherwise a party to the transaction (i.e. broker, dealer, portfolio manager) or affiliated with a party to the transaction.
- **Total Return:** Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.
- **Treasury Bills:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.
- **Treasury Bonds:** Long-term, coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.
- **Treasury Notes:** Medium-term, coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

- **Uniform Net Capital Rule:** Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.
- **Yield:** The rate of annual income return on an investment, expressed as a percentage. Income/current yield is obtained by dividing the current dollar income by the current market price for the security. Net yield or yield to maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

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(/policies/fayetteville/avcf/3140-19981106.php)Revised November 6, 1998
(/policies/fayetteville/avcf/3140-19981106.pdf)Revised June, 1997
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