GUILFORD COUNTY, NORTH CAROLINA
CASH MANAGEMENT AND INVESTMENT POLICY

Scope

This policy applies to all financial assets of Guilford County except authorized client trust funds administered by Social Services, LEOSSA trust funds invested in accordance with a separate policy approved as part of the LEOSSA Trust Agreement and OPEB trust funds invested in the State Treasurer's Local Government Other Post-Employment Benefits Fund pursuant to General Statute 147-69.4. Proceeds of debt issuance shall be invested in accordance with the County's general investment philosophy as set forth in this policy; however, such proceeds are to be invested pursuant to the permitted investment provisions of their specific bond documents. The County pools the cash resources of its various funds into a single treasurer's fund in order to maximize investment opportunities. These funds are accounted for in the County's Annual Comprehensive Financial Report. Each fund's portion of total cash and investments is summarized by fund type in the balance sheet as equity or deficit in pooled cash and investments. This policy applies to all transactions involving the financial assets and related activity of all the various funds accounted for in the County's Annual Comprehensive Financial Report except for the OPEB and LEOSSA trust funds.

Objectives

Funds of the County will be invested in accordance with North Carolina General Statutes, this Cash Management and Investment Policy, and written administrative procedures as approved by the Finance Officer. The County's investments shall be undertaken in a manner that (1) seeks to ensure the preservation of capital in the overall portfolio, (2) provides for sufficient liquidity to meet the cash needs of the County's various operations and (3) attains a fair market rate of return. Cash management functions will be conducted in such a manner as to ensure that adequate funds will always be available to meet the County's financial obligations and to provide the maximum amount of funds available for investment at all times.

Responsibility

In accordance with N.C. General Statutes, the Finance Officer is charged with the responsibility of cash management and investment and is designated as Investment Officer of Guilford County. The Finance Officer is responsible for investment decisions and activities and shall develop and maintain written administrative procedures for the operation of the cash management and investment program, consistent with N.C. Statutes and these policies. To enable the Finance Officer to efficiently discharge the investment responsibilities, as well as the various other duties and responsibilities of the position, he/she may:

Delegate one or more members of his/her staff to perform the functions of Cash Management and Investment Officer. Such delegation will not relieve the Finance Officer of responsibility for all transactions undertaken; and/or

Contract with and or engage the support services of advisors, consultants and professionals in regard to its investment program. Investment advisors shall be registered with the Securities Exchange Commission under the Investment Advisors Act of 1940. Advisors shall be selected using the County's authorized purchasing procedures for selection of professional services. Advisors shall be subject to the provisions of this Policy, and shall not, under any circumstances, take custody of any County funds or securities. No contract for services with an Investment Advisor shall be deemed to be a delegation of the Finance Officer's decision-making authority. Investment Advisors, procured by contract, shall at all times remain independent contractors,

No delegation or contract for services as described herein will divest or relieve the Finance Officer of their role or responsibility for all transactions undertaken.

The Finance Officer shall establish and maintain controls and regular monitoring of all delegated activities or contract services to ensure compliance with all applicable laws, regulations, and policies.

The standard of prudence to be used by the Investment Officer and his/her delegates shall be the "Prudent Investor" Rule, which states, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." This standard of prudence shall be applied in the context of managing an overall portfolio. The Investment Officer and his/her delegates or contractors acting in accordance with North Carolina General Statutes, this policy, and written administrative procedures and exercising due diligence shall be relieved of personal responsibility for an investment credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Ethics and Conflicts of Interest

To avoid any appearance of potential conflict of interest or favoritism to a particular bank or broker, the Investment Officer or any delegated employee who has investment responsibilities shall make full disclosure to the Finance Officer and the County Manager of any relationship or dealings with any financial institution that has business dealings with the County. This disclosure need not include normal banking or brokerage relationships that are at normal market rates and conditions available to the general public. Investment officials shall be familiar with N.C. General Statutes and County policy regarding gifts and favors and shall act accordingly.

Authorized Investments and Limitations

Statutory authority for local government investments in North Carolina is contained in N.C. General Statutes, Chapter 159-30, et. seq., which serves as the basis for the County's allowable investments as well.

In addition to the requirements of NCGS 159-30, et. seq., the following investment restrictions and portfolio limitations shall apply to the cash management and investment practices of Guilford County:

No investment in Repurchase Agreements shall be made unless the underlying collateral shall be placed in safekeeping in the trust department of a third-party bank. Repurchase Agreements are subject to a Master Repurchase Agreement between the County and the provider of the repurchase agreement. The Master Repurchase Agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA). The maximum maturity may not exceed one (1) year.

The combined total investment in commercial paper and banker's acceptances shall not exceed 35% of the total portfolio and the investment in commercial paper or banker's acceptance of a single issuer shall not exceed 5% of the total portfolio at the time of the investment.

No more than 35% of the total portfolio may be invested in any single Agency/Instrumentality issuer.

Obligations of the State of North Carolina and bonds and notes of any North Carolina local government or public authority must be rated in a rating category of "A" or its equivalent or better by at least two nationally recognized statistical rating organizations ("NRSROs") at the time of purchase. The combined total investment in Obligations of the State of North Carolina and obligations of any North Carolina local government or public authority may not exceed 30% of the total portfolio. No more than 5% of the total portfolio may be invested in the securities of any single issuer.

No more than 30% of the total portfolio may be invested in certificates of deposit and no more than 10% of the total portfolio may be invested in any one issuer.

No investment shall be made in any security with a maturity greater than five years from the date of purchase.

All government securities and other negotiable instruments shall be held in safekeeping by the trust department of a bank.

Investment Pools

The County by and through its Financial Officer and their delegates or contractors shall conduct a thorough investigation of any local government investment pool or fund prior to making an investment, and on a continual basis thereafter. There shall be a questionnaire developed which will answer the following general questions which shall be reviewed by the Chief Financial Officer for the County:

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
5. A schedule for receiving statements and portfolio listings.
6. Are reserves, retained earnings, etc. utilized by the pool/fund?
7. A fee schedule, and when and how it is assessed.

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

Competitive Selection of Investment Instruments

The County may engage the support services of advisors, consultants and professionals in regard to its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the County's financial resources. Investment Advisors shall be registered with the Securities Exchange Commission under the Investment Advisors Act of 1940. Advisors shall be selected using the County's authorized purchasing procedures for selection of professional services. Advisors shall be subject to the provisions of this Policy, and shall not, under any circumstances, take custody of any County funds or securities.

Selection of broker/dealers used by an external investment adviser retained by the County will be at the sole discretion of the County Finance Officer, or his or her delegated staff member. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

The County may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as the paper meets the criteria outlined in the section titled "Authorized Investments and Limitations."

To the extent practicable, the Investment Officer shall endeavor to complete investment transactions using a competitive bid process whenever possible. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded. If the County is offered a security for which there is no other readily available competitive offering, then quotations on comparable or alternative securities will be recorded.

In the interest of community development, the County may invest up to 1% of its pooled investments, excluding bond proceeds, with a qualifying minority, historically underutilized or community financial institution, provided the interest rate offered is at least as high as the yield on the 90-day Treasury bill at the time of deposit. Under this provision no one entity shall receive County investments greater than one million dollars. In such situations a waiver to the bid requirements of this section may be granted by the Finance Director. Such placement of funds will otherwise be compliant with other provisions of this policy and will be consistent with State or local law. All terms and relationships will be fully disclosed prior to placement of the funds and will be reported on a consistent basis in a manner to be determined by the Finance Director.

Portfolio Management and Balance

The County's investment portfolio shall consist of three general categories:

Staggered Maturities: Investments scheduled to mature to meet known and anticipated cash needs on a particular date. These investments are generally certificates of deposit, commercial paper and banker's acceptances and typically range from 60 to 270 days to maturity.

Liquidity Reserve Investments: Demand investments and short-to- intermediate term U.S. Treasury securities which are held to provide liquidity in case of unanticipated cash needs. These cash needs may be caused by unanticipated expenditures, revenue shortfalls, or bank wire transmission or other temporary problems in receiving expected funds. Prudent cash management dictates that reasonable reserves of cash or investments that can readily be converted to cash be maintained at all times.

Extended Maturities: Investments in government securities with maturities of one to five years. These investments are made to secure higher yields generally available for longer-term investments.

The Investment Officer shall be governed by North Carolina Statutes and this investment policy in exercising prudent judgment in the management of the investment portfolio. The Investment Officer will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments and will adjust the portfolio accordingly.

Risk Management and Diversification

Mitigating Credit Risk in the Portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The County will mitigate credit risk by adopting the following strategies:

- The diversification requirements included in the "Authorized Investments and Limitations" section of this policy are designed to mitigate credit risk in the portfolio.
- The County may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or the County's risk preferences.
- If securities owned by the County are downgraded by a nationally recognized statistical ratings organization (NRSRO) to a level below the quality required by this Investment Policy, it will be the County's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
- If a security is downgraded, the Finance Officer will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.
- If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported periodically to the Board of County Commissioners.

Mitigating Market Risk in the Portfolio

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The County recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The County will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The County, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The County shall maintain at least 10% of its total portfolio in instruments maturing in 90 days or less to provide sufficient liquidity for expected disbursements.
- The maximum percent of callable securities (does not include “make whole call” securities as defined in the Glossary) in the portfolio will be 20%.
- The maximum stated final maturity of individual securities in the portfolio will be five years, except as otherwise stated in this policy.

The duration of the portfolio will at all times be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the County based on the County’s investment objectives, constraints and risk tolerances.

Qualified Institutions and Official Depositories

The Finance Officer shall maintain a listing of financial institutions which are approved for investment purposes. Banks and brokerage firms shall provide Consolidated Reports of Condition, Audited Financial Statements, Financial Industry Regulatory Authority (FINRA) Certification, certification of having read North Carolina General Statute 159-30(c) and the County’s Investment Policy or other appropriate reports, at the request of the County. Securities dealers not affiliated with a North Carolina bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank as primary dealers. Any dealer that qualifies under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). shall be an eligible provider. Any dealer offering the e-ConnectDirect® program endorsed by the N.C. Association of County Commissioners shall be an eligible provider. An annual review of the financial condition and registration of qualified bidders will be conducted by the Finance Officer. Depositories shall be selected to provide general banking services required by the County. Selection of a depository bank shall be through a competitive process of request for proposals of banking services. The Finance Officer shall invite proposals from local banks meeting certain criteria. He/She shall analyze and compare all proposals and shall recommend a depository bank to the Board of County Commissioners. The Board shall designate the selected bank as official depository for the County. The designated bank shall remain the official depository in accordance with the banking agreement. The normal duration for such designations shall be five years with provision for one-year extensions.

Internal Control, Safekeeping and Custody

The Finance Officer shall establish a system of internal controls, which shall be documented in writing and reviewed by the County’s independent auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by County employees. To protect against potential fraud and embezzlement, the negotiable securities of the County shall be held in safekeeping by the trust department of a bank that is independent of the County's investment providers or counterparties. All trades where applicable will be executed by Delivery vs. Payment (DVP). Any bank certificate of deposit other than a "book entry" CD (i.e., evidenced by a physical certificate) shall be maintained in a locked compartment in the safe in the Treasurer's office.

Reporting

The Finance Officer shall submit quarterly an investment report to the Board of County Commissioners. The report shall summarize the investment activities in the most recent quarter and comment on anticipated investments in the next quarter. The report shall include a general description of the portfolio in terms of investment securities, maturities, yield and other features. The report will show investment earnings for the quarter and fiscal year-to-date, including the weighted average yield to maturity. The report will compare actual investment earnings with budgetary expectations and will comment on actual and anticipated variances with the budget. Any areas of policy concern and suggested or planned revisions of investment strategies shall be addressed in the report. The report will include the following at a minimum:

a) An asset listing showing par value, cost and independent third-party fair market value of each security as of the date of the report, the source of the valuation, type of investment, issuer, maturity date, and interest rate.
b) Transactions for the period.
c) A description of the funds, investments and programs managed by contracted parties (i.e. local government investment pools)
d) A one-page summary report that shows:
    - Average maturity of the portfolio and modified duration of the portfolio;
    - Maturity distribution of the portfolio;
    - Percentage of the portfolio represented by each investment category;
    - Average portfolio credit quality; and,
    - Time-weighted total rate of return for the portfolio for the prior one month, three months, twelve months and since inception compared to the County's market benchmark returns for the same periods;
e) A statement of compliance with the Investment Policy, including a schedule of any transactions or holdings which do not comply with this Policy or with North Carolina General Statutes, including a justification for their presence in the portfolio and a timetable for resolution.

Any Delegate or contracted Investment Advisor, as those terms are used herein, shall provide monthly reports to the Chief Financial Officer containing the information listed in items a-e of the Reporting section.

Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall obtain a market average rate of return during a market/economic environment throughout budgetary and economic cycles, taking into account the County's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments. The Finance Officer shall monitor and evaluate the portfolio's performance relative to a market benchmark, which will be included in the Finance Officer's periodic reports. The Finance Officer shall select an appropriate, readily available index to use as a market benchmark.

Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

Amendment

This policy shall be reviewed on an annual basis. Any changes must be approved by the County Manager and the Board of County Commissioners as well as the individual(s) charged with maintaining internal controls.

Approved by Board of County Commissioners, January 4, 2024

Glossary of Investment Terms

AGENCIES. Shorthand market terminology for any obligation issued by a government-sponsored entity (GSE), or a federally related institution. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government.

Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "FreddieMac" issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "FannieMae," issues discount notes, bonds and mortgage pass-through securities.
GNMA. The Government National Mortgage Association, known as "GinnieMae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

ASKED. The price at which a seller offers to sell a security.

BANKER'S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BID. The price at which a buyer offers to buy a security.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since securities are issued, the issuer will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining

FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COST YIELD. The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

CURRENT YIELD. The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

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

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See modified duration).

FEDERAL FUNDS RATE. The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

FEDERAL OPEN MARKET COMMITTEE. A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools such N.C. Capital Management Trust certified by the NC Local Government Commission, a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3; a commingled investment pool established by interlocal agreement by two or more units of local government. These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MARKING TO MARKET. The process of posting current market values for securities in a portfolio.

MATURITY. The final date upon which the principal of a security becomes due and payable.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100-basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO). A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CD. A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

PREMIUM. The difference between the par value of a bond and the cost of the bond, when the cost is above par.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries.

REALIZED YIELD. The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

REGIONAL DEALER. A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

VOLATILITY. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.