
GREATER ORLANDO AVIATION AUTHORITY
INVESTMENT POLICY

	<u>Page</u>
I. Scope.....	3
II. Objectives	3
Safety	
Liquidity	
Yield	
III. Performance Measurements.....	4
IV. Standards of Care.....	5
Prudence	
Ethics and Conflicts of Interest	
Legality	
Delegation and Authority	
Use of Investment Managers	
V. Authorized Investments	6
A. Under the Bond Resolution	
B. Under the Amended and Restated Master Subordinated Indenture of Trust	
C. Future Bond Resolutions	
D. Surplus Cash	
VI. Permitted Investments.....	7
VII. Safekeeping and Custody.....	11
A. Depositories	
B. Qualified Public Depositories	
VIII. Investment Parameters	12
A. Valuation and Sale of Investments	
B. Investment Maturities	
C. Diversification	
D. Authorized Investment Institutions and Dealers	
E. Bid Policy	
F. Wire Transfers	
G. Arbitrage Yield Restrictions	
H. Master Repurchase Agreement	
IX. Reporting.....	14
X. Internal Controls	14

XI. Continuing Education.....14

ATTACHMENT A: Glossary of Cash and Investment Management Terms

ATTACHMENT B: Investment Pool/Deposit/Fund Questionnaire

ATTACHMENT C: Authorized Investments/Benchmarks

Exhibits on file in Finance Department

Exhibit A Airport Facilities Revenue Bond Resolution – Official Codified Version
Adopted June 24, 2015- Depositories of Moneys, Security for Deposits, and
Investment of Funds

Exhibit B Amended and Restated Master Subordinated Indenture of Trust – Dated as of
July 1, 2016 -Depositories of Moneys, Security for Deposits and Investment of
Funds

I. SCOPE

This Investment Policy applies to the investment activities of the Greater Orlando Aviation Authority (“Aviation Authority”) except for its Defined Benefit Retirement Plan, Defined Contribution Retirement Plan, its Section 457 Deferred Compensation Plan, and its Other Post-Employment Benefits Trust which are separately organized and administered.

Except for cash in certain restricted funds, the Aviation Authority will, when feasible and appropriate, consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

II. OBJECTIVES

The following objectives establish the framework of the permitted investments in Section VI of this Investment Policy.

Safety

Safety of principal is the foremost objective of the Aviation Authority. Each investment transaction shall seek to avoid capital losses from securities defaults or erosion of market value. The objective will be to mitigate credit risk and interest rate risk. The Aviation Authority will minimize the risk of loss due to the failure of the security issuer or backer by limiting investments to the safest types of securities. The Aviation Authority will minimize interest rate risk through asset diversification, maturity variations and maturity limits.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This will be accomplished by structuring the Asset/Liability portfolios to match investment maturities with known cash needs and anticipated cash flow requirements. To the extent feasible, funds held for future capital projects shall be invested in securities that reasonably can be expected to produce enough income to offset inflationary construction cost increases.

Additionally, the Aviation Authority may utilize or authorize a Total Return strategy whereas portfolios shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. Periodic cash flow analyses will be completed in order to ensure that the portfolios are positioned to provide sufficient liquidity.

Yield

Investment portfolios shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and

liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. However, for Total Return portfolios, return is attempted through active management where the Investment Advisor utilizes a total return strategy (which includes both realized and unrealized gains and losses in the portfolio). This total return strategy seeks to increase the value of the portfolio through investment for certain funds as allowable under the various Bond Resolutions in accordance with guidelines described in Section V (Authorized Investments) or as may be amended from time to time. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Despite this, an Investment Advisor may trade to recognize a loss from time to time to achieve a perceived relative value based on its potential to enhance the total return of the portfolio.

Securities may also be sold prior to maturity under the following circumstances:

1. A security with declining credit may be sold early to minimize loss of principal.
2. A security swap would improve the quality, yield, or investment maturity in the portfolio.
3. Liquidity needs of the portfolio require that the security be sold.
4. A security is no longer in compliance with the Investment Policy, permitted investments of relevant Bond Indentures, or Florida statutes.

III. Performance Measurements

The Aviation Authority may measure performance of the Asset/Liability and Total Return Portfolios and funds in money markets, demand deposit accounts or LGIP's, held separately from Asset/Liability and Total Return Portfolios using any of the following benchmarks as approved by the Chief Financial Officer of the Aviation Authority:

1. Overnight Repurchase Rate
2. Short-Term Investments – iMoneyNet's First Tier Rated Retail Net 30-Day Median Yield
3. Short-Term Investments – iMoneyNet's Government Retail Net 30-Day Median Yield
4. iMoneyNet First Tier Institutional Average
5. Local Government Investment Pools – S&P Rated GIP Index/All
6. Short-Term Investments – Bank of America Merrill Lynch 3 Months U.S. Treasury Bill Index

7. Bank of America Merrill Lynch 1 Year U.S. Treasury Index
8. Bank of America Merrill Lynch 1-3 Year U.S. Treasury Index
9. Bank of America Merrill Lynch 1-5 Year U.S. Treasury Index
10. Bank of America Merrill Lynch 1-10 Year U.S. Treasury Index
11. Bank of America Merrill Lynch 10+ Year U.S. Treasury Index
12. Bank of America Merrill Lynch 1-3 Year AAA-A Corporate & Government Index
13. Bank of America Merrill Lynch 1-3 Year Government Index
14. Bank of America Merrill Lynch 1-3 Year Corporate Index

In the event that the above benchmarks are no longer available or not applicable, an Index that is comprised of underlying assets of comparable asset classes, ratings quality and duration may be used.

IV. Standards of Care

Prudence

The standard of prudence to be used by the Authorized Investment Officer (as defined in “Delegation and Authority” below) shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. The Authorized Investment Officer and other employees designated pursuant to this investment policy assigned to manage the portfolio shall be relieved of personal responsibility from credit risk or market price changes, provided their actions have been taken in accordance with the provisions of this investment policy and any significant deviations from reasonable expectations are reported to the Finance Committee in a timely manner.

Investments shall be made with the exercise of judgment and due 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 from the investment.

Ethics and Conflicts of Interest

The Authorized Investment Officer and other employees designated pursuant to this investment policy involved in the investment process shall refrain from personal business activities, other than routine banking relations, that conflict with proper execution of the investment program or impair their ability to make impartial investment decisions. Any material financial interests that may be related to the performance of the Aviation Authority's investment portfolio shall be disclosed promptly to the Finance Committee.

Legality The Aviation Authority shall invest its funds in accordance with the Airport Facilities Revenue Bond Resolution Authorizing Airport Facilities Revenue Bonds (the "Bond Resolution") as adopted on June 24, 2015; and the Amended and Restated Master Subordinated Indenture of Trust (the "Subordinated Indenture") dated July 1, 2016.

Delegation and Authority Section 603 of the Bond Resolution delegates the responsibility for investment of funds to an Authorized Officer of the Aviation Authority defined as the Chairman, the Vice Chairman, the Treasurer, the Secretary, or any other officer or employee of the Aviation Authority authorized by resolution to perform specific acts or duties related to the subject matter of the authorization. The Subordinated Indenture delegates this responsibility to an Authorized Aviation Authority Representative defined as the Chairman, Vice-Chairman, Treasurer, Secretary of the Board, the Executive Vice President or Chief Financial Officer, or any other officer or employee of the Aviation Authority authorized by resolution to perform specific acts, or duties as designated by written certificate furnished to the Trustee. The Aviation Authority adopted a Resolution stating that the Executive Vice President, Chief Financial Officer, and Vice President of Finance are Authorized Officers. The individual authorized to invest funds on behalf of the Aviation Authority under all the foregoing will be referred to as the Authorized Investment Officer.

The Authorized Investment Officer shall be nominated by the Finance Committee and appointed by the Aviation Authority Board for a term of two years. The Authorized Investment Officer may designate one or more employees to approve sales and purchases of investment securities in accordance with this policy. The Aviation Authority may also utilize Investment Advisors to perform various portfolio services within the parameters of this policy. Trustees shall be notified in writing of the appointment of the Authorized Investment Officer and those employees acting as designees.

The Finance Committee shall review investment policies and procedures and make recommendations to the Aviation Authority Board regarding significant financial and investment matters.

V. Authorized Investments

A. Under the Bond Resolution

Article VI of the Bond Resolution permits certain investments in Investment Securities, as defined in attached Exhibit A.

The Debt Service Reserve Account that secures the Series 1998 Bonds may not be invested in obligations described in clause (xiii) of the definition of Investment Securities without prior written consent of National Public Finance, formerly known as MBIA, the insurer of these bonds.

The Debt Service Reserve Account that secures the Series 2007A and 2008A Bonds may not be invested in obligations described in clause (xiii) of the definition of Investment Securities without prior written consent of Assured Guaranty, formerly known as FSA, the insurer of these bonds.

B. Under the Subordinated Indenture

Section 9.02 of the Subordinated Indenture provides that moneys may be invested and reinvested in "Permitted Investments" as defined in attached Exhibit B.

C. Future Bond Resolutions

Notwithstanding the foregoing, all investments shall be made subject to and in accordance with any future bond resolutions that may be in effect or amended from time to time.

D. Surplus Cash

Surplus cash under the Bond Resolution, the Subordinated Indenture and any other future Bond Resolutions shall be invested in accordance with the applicable requirements of Article V of this policy. Surplus cash that is not governed by the requirements of Sections (A) through (C) of this Article V shall be invested in only high quality fixed income securities described below in section VI.

VI. Permitted Investments

Attachment C shows in tabular form the permitted investments and associated requirements as well as their sector benchmarks. Below are definitions applicable to permitted investments.

- 1) **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.
- 2) **GNMA** – The Government National Mortgage Association (GNMA or “Ginnie Mae”) is a government-owned Federal **Agency** that acquires, packages, **and** resells mortgages **and** mortgage purchase commitments in the form of mortgage-

backed **securities**. Largest issuer of mortgage pass-through securities. GNMA debt is guaranteed by the full faith and credit of the U.S. government (one of the few agencies that are actually full faith and credit of the U.S. government).

- 3) **Federal Agency/GSE** - Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. Federal agency, instrumentality or government-sponsored enterprise (GSE).
- 4) **Supranationals** – Debt obligations issued by multi-national financial organizations of which the U.S. is a shareholder and voting member, and which are denominated in U.S. dollars.
- 5) **Corporates** – 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.
- 6) **Municipals** – Obligations, including both taxable and tax-exempt, 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 State or territory.
- 7) **Agency Mortgage Backed Securities** - Mortgage-backed securities (MBS), backed by residential, multi-family or commercial mortgages, that are issued or fully guaranteed as to principal and interest by a U.S. Federal agency or government sponsored enterprise, including but not limited to pass-throughs, collateralized mortgage obligations (CMOs) and REMICs.
- 8) **Asset-Backed Securities** - Asset-backed securities (ABS) whose underlying collateral consists of loans, leases or receivables, including but not limited to auto loans/leases, credit card receivables, student loans, equipment loans/leases, or home-equity loans.
- 9) **Non-Negotiable Certificate of Deposits and Savings Accounts** - Non-negotiable interest bearing time certificates of deposit, or savings accounts in banks organized under the laws of this state or in national banks organized under the laws of the United States and doing business in this state, provided that any such deposits are secured by the Florida

Security for Public Deposits Act, Chapter 280, Florida Statutes.

10) **Prime Commercial Paper** – U.S. dollar denominated commercial paper issued or guaranteed by a domestic or foreign corporation, company, financial institution, trust or other entity, including both unsecured debt and asset-backed programs.

11) **Repurchase Agreements** - Repurchase agreements (Repo or RP) that meet the following requirements:

- a. Must be 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.
- b. Counterparty must be a Federal Reserve Bank, a Primary Dealer as designated by the Federal Reserve Bank of New York, or a nationally chartered commercial bank.
- c. Securities underlying repurchase agreements must be delivered to a third party custodian under a written custodial agreement and may be of deliverable or tri-party form. Securities must be held in the County's custodial account or in a separate account in the name of the County.
- d. Acceptable underlying securities include only securities that are direct obligations of, or that are fully guaranteed by, the United States or any agency of the United States, or U.S. Agency-backed mortgage related securities.
- e. Underlying securities must have an aggregate current market value of at least 102% (or 100% if the counterparty is a Federal Reserve Bank) of the purchase price plus current accrued price differential at the close of each business day.
- f. Final term of the agreement must be 1 year or less.

12) **Money Market Funds** - Shares in open-end and no-load money market mutual funds, provided such funds are

registered under the Investment Company Act of 1940 and operate in accordance with Rule 2a-7.

A thorough investigation of any money market fund is required prior to investing, and on an annual basis. Attachment B is a questionnaire that contains a list of questions, to be answered as applicable to the type of investment (i.e. LGIP, Money Market Fund or demand deposit account) prior to investing, that cover the major aspects of any investment pool/fund. A current prospectus must be obtained.

- 13) **Local Government Investment Pools** – State, local government or privately-sponsored investment pools that are authorized pursuant to state law. These are pools that only government and not-for-profit entities are allowed to invest in. A thorough investigation of any intergovernmental investment pool is required prior to investing, and on an annual basis. A current prospectus must be obtained and questions noted on Attachment B as applicable to the type of investment (i.e. LGIP, Money Market Fund or demand deposit account) should be answered prior to investing.

General Investment and Portfolio Limits

1. General investment limitations:
 - a. Investments must be denominated in U.S. dollars and issued for legal sale in U.S. markets.
 - b. Minimum ratings are based on the highest rating by any one Nationally Recognized Statistical Ratings Organization (“NRSRO”), unless otherwise specified.
 - c. All limits and rating requirements apply at time of purchase.
 - d. Should a security fall below the minimum credit rating requirement for purchase, the Investment Advisor will notify the Aviation Authority’s Chief Finance Officer or designee.
 - e. Maturity and average life (MBS/ABS) are measured from settlement date. The final maturity date can be

based on any mandatory call, put, pre-refunding date, or other mandatory redemption date.

- i. Average life will be used to measure the maximum maturity for MBS and ABS. Average life is the date that reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security's description.

2. General portfolio limitations:

- a. Investments in non-U.S. entities

3. Investment in the following are permitted, provided they meet all other policy requirements:

- a. Callable, step-up callable, called, pre-refunded, puttable and extendable securities, as long as the effective final maturity meets the maturity limits for the sector
- b. Variable-rate and floating-rate securities
- c. Subordinated, secured and covered debt, if it meets the ratings requirements for the sector
- d. Zero coupon issues and strips, excluding agency mortgage-backed Interest-only structures (I/Os)
- e. Treasury TIPS

4. A minimum of 1/6th of the Operations and Maintenance Budget must be invested in securities with an explicit backing or guarantee of the US Government.
5. Investments not specifically identified in the policy are not permitted.

**VII. Safekeeping
and Custody**

All securities owned by the Aviation Authority shall be held in safekeeping by a third party as agent for the Aviation Authority under the terms of a custodian agreement or Bond Market Association Master Repurchase Agreement, except for those funds held by the Trustee(s). It shall not be necessary for the Trustee(s) to lodge such collateral security with any other bank or trust company, but it shall be sufficient for the Trustee(s) to lodge such collateral security within its Trust Department.

All securities transactions must be made on a “delivery vs. payment” basis, if applicable, to ensure that the third party acting as agent for the Aviation Authority will have the security or money, as appropriate, in hand at the conclusion of the transaction.

A. Depositories

Under Section 601 of the Bond Resolution, all moneys held by the Trustee or Special Trustee shall be deposited with the Trustee or the Special Trustee as the case may be, including one or more Depositories in trust for the Trustee or the Special Trustee. All moneys held by the Aviation Authority under the Resolution shall be deposited in one or more Depositories in the name of the Aviation Authority. Each depository shall be (1) a bank or trust company organized under the laws of any state of the United States of America or a national banking association, having capital stock and surplus aggregating at least \$1,000,000, and (2) willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the Resolution.

B. Qualified Public Depositories

Pursuant to Chapter 280 of the Florida Statutes, all public funds must be deposited in a qualified public depository as defined in F.S. 280.02 and as designated by the State of Florida’s Chief Financial Officer. It is the Aviation Authority’s intention to deposit funds only at Qualified Public Depositories.

**VIII. Investment
Parameters**

A. Valuation and Sale of Investments

Investments purchased as an investment of moneys in any account or fund shall be deemed at all times to be a part of such account or fund, and any profit realized or loss resulting from the liquidation of such investment shall be credited or charged to such account or fund. Investments under the Bond Resolution and Subordinated Indenture shall be valued at cost or principal amount thereof, whichever is lower, exclusive of accrued interest, that such

investments in the Debt Service Reserve Fund under the Bond Resolution and Subordinated Indenture shall be valued on March 31 and September 30 in each year at cost or market, whichever is lower, exclusive of accrued interest.

When the sale of a security prior to maturity is authorized by this investment policy, the Investment Advisor, Authorized Investment Officer or employee designated pursuant to this investment policy may direct the Trustee, Special Trustee or Depositary in writing to sell such security at the best price obtainable.

B. Investment Maturities

Investments under the Bond Resolution shall mature no later than needed, except for 1) investments in the Debt Service Reserve Account which shall mature not later than fifteen years (unless such investment is redeemable at the option of the holder, in which event the maturity shall not exceed the final maturity date of the Bonds secured by such investment), 2) investments in the Operation and Maintenance Fund and Operation and Maintenance Reserve Account shall mature within twelve months, and 3) investments in the Capital Expenditure Fund, the Renewal and Replacement Fund, Improvement and Development Fund, and the Discretionary Fund shall mature within five years.

Investments under the Subordinate Indenture shall mature no later than needed, except for investments in the Reserve Fund which shall mature not later than fifteen years from the date of such investment.

Investments under future bond resolutions and Surplus Cash shall mature no later than the dates on which such funds are needed.

C. Diversification

The Aviation Authority's investments shall be diversified by:

1. limiting investments in securities from a specific issuer or business sector (excluding U.S. Treasury securities) to avoid over concentration,
2. limiting investment in securities that have higher credit risks,
3. investing in securities with varying maturities, and
4. continuously investing a portion of the portfolio in readily available funds such as money market funds, LGIP's, demand deposit accounts, or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

D. Authorized Investment Institutions and Dealers

The Authorized Investment Officer shall only trade securities with financial institutions which are qualified as public depositories by the Chief Financial Officer of the State of Florida, from primary securities dealers as designated by the Federal Reserve Bank of New York, regional broker/dealers approved by the Investment Advisor or Chief Financial Officer of the Aviation Authority, or entities and their affiliates that are currently serving as a Trustee for the Aviation Authority.

E. Bid Policy

Staff shall determine the approximate maturity date of investments based upon cash flow needs and market conditions, analyze and select one or more optional types of investment, and competitively bid when feasible and appropriate.

F. Wire Transfers

The Authorized Investment Officer shall designate those employees authorized to transact wire transfers and the Trustee, Special Trustee and Depositories shall be so notified in writing.

G. Arbitrage Yield Restrictions

The investment of funds will comply with the applicable arbitrage and other limitations under Section 103(b)(2), 148 and 149 of the Internal Revenue Code of 1986, as amended. A Certificate Relating to Tax, Arbitrage and Other Matters and Investment Letter is prepared by bond counsel for each bond issue and indicates the arbitrage yield restrictions. Form 8038-T is filed with the rebate payment, if any.

H. Master Repurchase Agreement

All approved institution and dealers transacting repurchase agreements must execute and perform as stated in the Master Repurchase agreement.

Investments subject to yield calculations shall be structured and reviewed periodically so that earnings thereon are limited to the arbitrage yield restrictions.

IX. Reporting

The Authorized Investment Officer shall submit a semi-annual report as of March 31 and September 30 to the Finance Committee summarizing the investment portfolio by fund type, investment type, cost, interest rate, maturity date, amount of deposit, current market value and accrued interest due. The report shall include:

- a) Listing of individual securities held at the end of the reporting period.
- b) Total Principal (cost basis) and Market Value of the portfolio.
- c) Average weighted yield to maturity of portfolio as compared to applicable benchmarks.
- d) Percentage of the total portfolio which each type of investment represents.
- e) Investment yield computed and disclosed by fund type.

The report will be submitted to the Aviation Authority's Board after review by the Finance Committee.

X. Internal Controls

The Aviation Authority's Chief Financial Officer shall establish and monitor a set of written controls designed to protect the Aviation Authority's funds and ensure proper accounting and reporting of the securities transactions. The Aviation Authority's independent auditors will review the internal controls as part of their financial audit of the Aviation Authority.

XI. Continuing Education

The Authorized Investment Officer of the Aviation Authority or the Aviation Authority's Chief Financial Officer must complete eight (8) hours of continuing education annually in subjects or courses of study related to investment practices or products.

APPROVAL AND UPDATE HISTORY

Last Approval

Aviation Authority Board: May 17, 2017
Chief Executive Officer: January 22, 2014

Supersedes

All Previous

Attachment A

Glossary of Cash and Investment Management Terms

The following is a glossary of key investing terms, many of which appear in the Aviation Authority's investment policy. This glossary clarifies the meaning of investment terms generally used in cash and investment management. This glossary has been adapted from the GFOA Sample Investment Policy and the Association of Public Treasurers of the United States and Canada's Model Investment Policy. Investment types that appear in this glossary may or may not be Authorized Investments. Authorized Investments are defined herein under Section V: Authorized Investments and within the various Bond Resolutions.

Accrued Interest. Interest earned but which has not yet been paid or received.

Agency. See "Federal Agency Securities."

Ask Price. Price at which a broker/dealer offers to sell a security to an investor. Also known as "offered price."

Asset Backed Securities (ABS). A fixed-income security backed by notes or receivables against assets other than real estate. Generally issued by special purpose companies that "own" the assets and issue the ABS. Examples include securities backed by auto loans, credit card receivables, home equity loans, manufactured housing loans, farm equipment loans, and aircraft leases.

Asset/Liability Portfolio. Entails managing assets and cash inflows to satisfy various future obligations. As portfolios are sensitive to interest rates, strategies such as this may be employed to protect them from rate fluctuations. The primary objective is to match security maturities with future obligations (e.g. debt service or project funds). Success in the process of maximizing assets to meet complex liabilities may increase profitability.

Average Life. This date reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security's description.

Bankers' Acceptance (BA's). A draft or bill of exchange drawn upon and accepted by a bank. Frequently used to finance shipping of international goods. Used as a short-term credit instrument, bankers' acceptances are traded at a discount from face value as a money market instrument in the secondary market on the basis of the credit quality of the guaranteeing bank.

Basis Point. One hundredth of one percent, or 0.01%. Thus 1% equals 100 basis points.

Bearer Security. A security whose ownership is determined by the holder of the physical security. Typically, there is no registration on the issuer's books. Title to bearer securities is transferred by delivery of the physical security or certificate. Also known as "physical securities."

Benchmark Bills: In November 1999, FNMA introduced its Benchmark Bills program, a short-term debt securities issuance program to supplement its existing discount note program. The program includes a schedule of larger, weekly issues in three- and six-month maturities and biweekly issues in one-year for Benchmark Bills. Each issue is brought to market via a Dutch (single price) auction. FNMA conducts a weekly auction for each Benchmark Bill maturity and

accepts both competitive and noncompetitive bids through a web based auction system. This program is in addition to the variety of other discount note maturities, with rates posted on a daily basis, which FNMA offers. FNMA's Benchmark Bills are unsecured general obligations that are issued in book-entry form through the Federal Reserve Banks. There are no periodic payments of interest on Benchmark Bills, which are sold at a discount from the principal amount and payable at par at maturity. Issues under the Benchmark program constitute the same credit standing as other FNMA discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

Benchmark Notes/Bonds: Benchmark Notes and Bonds are a series of FNMA “bullet” maturities (non-callable) issued according to a pre-announced calendar. Under its Benchmark Notes/Bonds program, 2, 3, 5, 10, and 30-year maturities are issued each quarter. Each Benchmark Notes new issue has a minimum size of \$4 billion, 30-year new issues having a minimum size of \$1 billion, with reopenings based on investor demand to further enhance liquidity. The amount of non-callable issuance has allowed FNMA to build a yield curve in Benchmark Notes and Bonds in maturities ranging from 2 to 30 years. The liquidity emanating from these large size issues has facilitated favorable financing opportunities through the development of a liquid overnight and term repo market. Issues under the Benchmark program constitute the same credit standing as other FNMA issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Benchmark. A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance, and duration of the actual 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 future cash-flows, including periodic interest payments and a principal repayment.

Book Entry Securities. Securities that are recorded in a customer's account electronically through one of the financial markets electronic delivery and custody systems, such as the Fed Securities wire, DTC, and PTC (as opposed to bearer or physical securities). The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors' concerns about the certificates themselves. The vast majority of securities are now book entry securities.

Book Value. The value at which a debt security is reflected on the holder's records at any point in time. Book value is also called “amortized cost” as it represents the original cost of an investment adjusted for amortization of premium or accretion of discount. Also called “carrying value.” Book value can vary over time as an investment approaches maturity and differs from “market value” in that it is not affected by changes in market interest rates.

Broker/Dealer. A person or firm transacting securities business with customers. A “broker” acts as an agent between buyers and sellers, and receives a commission for these services. A “dealer” buys and sells financial assets from its own portfolio. A dealer takes risk by owning inventory of securities, whereas a broker merely matches up buyers and sellers. See also "Primary Dealer."

Bullet Notes/Bonds. Notes or bonds that have a single maturity date and are non-callable.

Call Date. Date at which a call option may be or is exercised.

Call Option. The right, but not the obligation, of an issuer of a security to redeem a security at a specified value and at a specified date or dates prior to its stated maturity date. Most fixed-income calls are a par, but can be at any previously established price. Securities issued with a call provision typically carry a higher yield than similar securities issued without a call feature. There are three primary types of call options (1) European - one-time calls, (2) Bermudan - periodically on a predetermined schedule (quarterly, semi-annual, annual), and (3) American - continuously callable at any time on or after the call date. There is usually a notice period of at least 5 business days prior to a call date.

Callable Bonds/Notes. Securities which contain an imbedded call option giving the issuer the right to redeem the securities prior to maturity at a predetermined price and time.

Certificate of Deposit (CD). Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity). Can be as long as 10 years to maturity, but most CDs purchased by public agencies are one year and under.

Collateral. Investment securities or other property that a borrower pledges to secure repayment of a loan, secure deposits of public monies, or provide security for a repurchase agreement.

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

Collateralized Mortgage Obligation (CMO). A security that pools together mortgages and separates them into short, medium, and long-term positions (called tranches). Tranches are set up to pay different rates of interest depending upon their maturity. Interest payments are usually paid monthly. In “plain vanilla” CMOs, principal is not paid on a tranche until all shorter tranches have been paid off. This system provides interest and principal in a more predictable manner. A single pool of mortgages can be carved up into numerous tranches each with its own payment and risk characteristics.

Commercial Paper. Short term unsecured promissory note issued by a company or financial institution. Issued at a discount and matures for par or face value. Usually a maximum maturity of 270 days and given a short-term debt rating by one or more NRSROs.

Competitive Bid. Receipt of bids/offers from approved broker/dealers on securities in question where a minimum of three potential bidders exist.

Convexity. A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Corporate Note. A debt instrument issued by a corporation with a maturity of greater than one year and less than 10 years.

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 a repurchase agreement.

Coupon Rate. Annual rate of interest on a debt security, expressed as a percentage of the bond's face value.

Current Yield. Annual rate of return on a bond based on its price. Calculated as (coupon rate / price), but does not accurately reflect a bond's true yield level.

Custody. Safekeeping services offered by a bank, financial institution, or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement, and market values.

Dealer. A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own account.

Delivery Versus Payment (DVP). Settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Fed Securities Wire system and DTC, are done DVP as a protection for both the buyer and seller of securities.

Depository Trust Company (DTC). A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs, and BAs clear through DTC.

Derivatives. (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities, or commodities). For hedging purposes, common derivatives are options, futures, interest rate swaps, and swaptions. All Collateralized Mortgage Obligations (CMOs) are derivatives.

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

Designated Bond. FFCB's regularly issued, liquid, non-callable securities that generally have a 2 or 3 year original maturity. New issues of Designated Bonds are \$1 billion or larger. Re-openings of existing Designated Bond issues are generally a minimum of \$100 million. Designated Bonds are offered through a syndicate of two to six dealers. Twice each month the Funding Corporation announces its intention to issue a new Designated Bond, reopen an existing issue, or to not issue or reopen a Designated Bond. Issues under the Designated Bond program constitute the same credit standing as other FFCB issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Discount Notes. Unsecured general obligations issued by Federal Agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year. Very large primary (new issue) and secondary markets exist.

Discount Rate. Rate charged by the system of Federal Reserve Banks on overnight loans to member banks. Changes to this rate are administered by the Federal Reserve and closely mirror changes to the “fed funds rate.”

Discount Securities. Noninterest bearing money market instruments that are issued at discount and redeemed at maturity for full face value. Examples include: U.S. Treasury Bills, Federal Agency Discount Notes, Bankers' Acceptances, and Commercial Paper.

Discount. The amount by which a bond or other financial instrument sells below its face value. See also "Premium."

Diversification. Dividing investment funds among a variety of security types, maturities, industries, and issuers offering potentially independent returns.

Dollar Price. A bond's cost expressed as a percentage of its face value. For example, a bond quoted at a dollar price of 95 ½, would have a principal cost of \$955 per \$1,000 of face value.

Duff & Phelps. One of several NRSROs that provide credit ratings on corporate and bank debt issues.

Duration. The weighted average maturity of a security's or portfolio's cash-flows, where the present values of the cash-flows serve as the weights. The greater the duration of a security/portfolio, the greater its percentage price volatility with respect to changes in interest rates. Used as a measure of risk and a key tool for managing a portfolio versus a benchmark and for hedging risk. There are also different kinds of duration used for different purposes (e.g. Macaulay Duration, Modified Duration).

Fannie Mae. See "Federal National Mortgage Association."

Fed Money Wire. A computerized communications system that connects the Federal Reserve System with its member banks, certain U. S. Treasury offices, and the Washington D.C. office of the Commodity Credit Corporation. The Fed Money Wire is the book entry system used to transfer cash balances between banks for themselves and for customer accounts.

Fed Securities Wire. A computerized communications system that facilitates book entry transfer of securities between banks, brokers and customer accounts, used primarily for settlement of U.S. Treasury and Federal Agency securities.

Fed. See "Federal Reserve System."

Federal Agency Security. A debt instrument issued by one of the Federal Agencies. Federal Agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

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. The largest Federal Agencies are GNMA, FNMA, FHLMC, FHLB, FFCB, SLMA, and TVA.

Federal Deposit Insurance Corporation (FDIC). Federal agency that insures deposits at commercial banks, currently to a limit of \$250,000 per depositor per bank.

Federal Farm Credit Bank (FFCB). One of the large Federal Agencies. A government sponsored enterprise (GSE) system that is a network of cooperatively-owned lending institutions that provides credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm-affiliated businesses. Consists of the consolidated operations of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks. Frequent issuer of discount notes, agency notes and callable agency securities. FFCB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and agricultural industry. Also issues notes under its “designated note” program.

Federal Funds (Fed Funds). Funds placed in Federal Reserve Banks by depository institutions in excess of current reserve requirements, and frequently loaned or borrowed on an overnight basis between depository institutions.

Federal Funds Rate (Fed Funds Rate). The interest rate charged by a depository institution lending Federal Funds to another depository institution. The Federal Reserve influences this rate by establishing a “target” Fed Funds rate associated with the Fed’s management of monetary policy.

Federal Home Loan Bank System (FHLB). One of the large Federal Agencies. A government sponsored enterprise (GSE) system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its “global note” and “TAP” programs.

Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”). One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages and participation interests financed by the sale of debt and guaranteed mortgage backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities, and MBS. Also issues notes under its “reference note” program.

Federal National Mortgage Association (FNMA or "Fannie Mae"). One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "benchmark note" program.

Federal Reserve Bank. One of the 12 distinct banks of the Federal Reserve System.

Federal Reserve System (the Fed). The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Fed Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven member Board of Governors known as the "Federal Reserve Board" and headed by its Chairman.

Financial Industry Regulatory Authority, Inc. (FINRA). A private corporation that acts as a selfregulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD). Though sometimes mistaken for a government agency, it is a non-governmental organization that performs financial regulation of member brokerage firms and exchange markets. The government also has a regulatory arm for investments, the Securities and Exchange Commission (SEC).

Fiscal Agent/Paying Agent. A bank or trust company that acts, under a trust agreement with a corporation or municipality, in the capacity of general treasurer. The agent performs such duties as making coupon payments, paying rents, redeeming bonds, and handling taxes relating to the issuance of bonds.

Fitch Investors Service, Inc. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

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."

Freddie Mac. See "Federal Home Loan Mortgage Corporation."

Ginnie Mae. See "Government National Mortgage Association."

Global Notes: Notes designed to qualify for immediate trading in both the domestic U.S. capital market and in foreign markets around the globe. Usually large issues that are sold to investors worldwide and therefore have excellent liquidity. Despite their global sales, global notes sold in the U.S. are typically denominated in U.S. dollars.

Government National Mortgage Association (GNMA or "Ginnie Mae"). One of the large Federal Agencies. Government-owned Federal Agency that acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities. Largest issuer of mortgage pass-through securities. GNMA debt is guaranteed by the full faith and credit of the U.S. government (one of the few agencies that are actually full faith and credit of the U.S. government).

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, Bonds, and SLGS."

Government Sponsored Enterprise (GSE). Privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. government, but they are not direct obligations of the U.S. government. For this reason, these securities will offer a yield premium over U.S. Treasuries. Examples of GSEs include: FHLB, FHLMC, FNMA, and SLMA.

Government Sponsored Enterprise Security. A security issued by a Government Sponsored Enterprise. Considered Federal Agency Securities.

Index. A compilation of statistical data that tracks changes in the economy or in financial markets.

Interest-Only (IO) STRIP. A security based solely on the interest payments from the bond. After the principal has been repaid, interest payments stop and the value of the security falls to nothing. Therefore, IOs are considered risky investments. Usually associated with mortgage-backed securities.

Internal Controls. An internal control structure ensures 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 a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgements by management.

Inverse Floater. A floating rate security structured in such a way that it reacts inversely to the direction of interest rates. Considered risky as their value moves in the opposite direction of normal fixed-income investments and whose interest rate can fall to zero.

Investment Advisor. A company that provides professional advice managing portfolios, investment recommendations, and/or research in exchange for a management fee.

Investment Adviser Act of 1940. Federal legislation that sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Grade. Bonds considered suitable for preservation of invested capital, including bonds rated a minimum of Baa3 by Moody's, BBB- by Standard & Poor's, or BBB- by Fitch.

Although “BBB” rated bonds are considered investment grade, most public agencies cannot invest in securities rated below “A.”

Liquidity. Relative ease of converting an asset into cash without significant loss of value. Also, a relative measure of cash and near-cash items in a portfolio of assets. Additionally, it is a term describing the marketability of a money market security correlating to the narrowness of the spread between the bid and ask prices.

Local Government Investment Pool (LGIP). An investment by local governments in which their money is pooled as a method for managing local funds.

Long-Term Core Investment Program. Funds that are not needed within a one-year period.

Market Value. The fair market value of a security or commodity. The price at which a willing buyer and seller would pay for a security.

Mark-to-market. Adjusting the value of an asset to its market value, reflecting in the process unrealized gains or losses.

Master Repurchase Agreement. A widely accepted standard agreement form published by the Securities Industry and Financial Markets Association (SIFMA) that is used to govern and document Repurchase Agreements and protect the interest of parties in a repo transaction.

Maturity Date. Date on which principal payment of a financial obligation is to be paid.

Medium Term Notes (MTN's). Used frequently to refer to corporate notes of medium maturity (5-years and under). Technically, any debt security issued by a corporate or depository institution with a maturity from 1 to 10 years and issued under an MTN shelf registration. Usually issued in smaller issues with varying coupons and maturities, and underwritten by a variety of broker/dealers (as opposed to large corporate deals issued and underwritten all at once in large size and with a fixed coupon and maturity).

Money Market. The market in which short-term debt instruments (bills, commercial paper, bankers' acceptance, etc.) are issued and traded.

Money Market Mutual Fund (MMF). A type of mutual fund that invests solely in money market instruments, such as: U.S. Treasury bills, commercial paper, bankers' acceptances, and repurchase agreements. Money market mutual funds are registered with the SEC under the Investment Company Act of 1940 and are subject to “rule 2a-7” which significantly limits average maturity and credit quality of holdings. MMF's are managed to maintain a stable net asset value (NAV) of \$1.00. Many MMFs carry ratings by a NRSRO.

Moody's Investors Service. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Mortgage Backed Securities (MBS). Mortgage-backed securities represent an ownership interest in a pool of mortgage loans made by financial institutions, such as savings and loans, commercial banks, or mortgage companies, to finance the borrower's purchase of a home or other real estate.

The majority of MBS are issued and/or guaranteed by GNMA, FNMA, and FHLMC. There are a variety of MBS structures with varying levels of risk and complexity. All MBS have reinvestment risk as actual principal and interest payments are dependent on the payment of the underlying mortgages which can be prepaid by mortgage holders to refinance and lower rates or simply because the underlying property was sold.

Mortgage Pass-Through Securities. A pool of residential mortgage loans with the monthly interest and principal distributed to investors on a pro-rata basis. The largest issuer is GNMA.

Municipal Note/Bond. A debt instrument issued by a state or local government unit or public agency. The vast majority of municipals are exempt from state and federal income tax, although some non-qualified issues are taxable.

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).

Negotiable Certificate of Deposit (Negotiable CD). Large denomination CDs (\$100,000 and larger) that are issued in bearer form and can be traded in the secondary market.

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 including securities, cash, and any accrued earnings, then subtracting the total assets 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. (See below.)

$$[(\text{Total assets}) - (\text{Liabilities})]/(\text{Number of shares outstanding})$$

NRSRO. A “Nationally Recognized Statistical Rating Organization” (NRSRO) is a designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating. Includes Moody’s, S&P, Fitch, and Duff & Phelps.

Offered Price. See also "Ask Price."

Open Market Operations. A Federal Reserve monetary policy tactic entailing the purchase or sale of government securities in the open market by the Federal Reserve System from and to primary dealers in order to influence the money supply, credit conditions, and interest rates.

Par Value. The face value, stated value, or maturity value of a security.

Physical Delivery. Delivery of readily available underlying assets at contract maturity.

Portfolio. Collection of securities and investments held by an investor.

Premium. The amount by which a bond or other financial instrument sells above its face value. See also "Discount."

Primary Dealer. A designation given to certain government securities dealer by the Federal Reserve Bank of New York. Primary dealers can buy and sell government securities directly with the Fed. Primary dealers also submit daily reports of market activity and security positions held to the Fed and are subject to its informal oversight. Primary dealers are the largest buyers and sellers by volume in the U.S. Treasury securities market.

Prime Paper. Commercial paper of high quality. Highest rated paper is A-1+/A-1 by S&P and P-1 by Moody's.

Principal. Face value of a financial instrument on which interest accrues. May be less than par value if some principal has been repaid or retired. For a transaction, principal is par value times price and includes any premium or discount.

Prudent Expert Rule. Standard that requires that a fiduciary manage a portfolio with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. This statement differs from the "prudent person" rule in that familiarity with such matters suggests a higher standard than simple prudence.

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. More stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

Qualified Public Depository - Per Subsection 280.02(26), F.S., "qualified public depository" means any bank, savings bank, or savings association that:

1. Is organized and exists under the laws of the United States, the laws of this state or any other state or territory of the United States.
2. Has its principal place of business in this state or has a branch office in this state which is authorized under the laws of this state or of the United States to receive deposits in this state.
3. Has deposit insurance under the provision of the Federal Deposit Insurance Act, as amended, 12 U.S.C. ss.1811 et seq.
4. Has procedures and practices for accurate identification, classification, reporting, and collateralization of public deposits.
5. Meets all requirements of Chapter 280, F.S.
6. Has been designated by the Chief Financial Officer as a qualified public depository.

Range Note. A type of structured note that accrues interest daily at a set coupon rate that is tied to an index. Most range notes have two coupon levels; a higher accrual rate for the period the index is within a designated range, the lower accrual rate for the period that the index falls outside the designated range. This lower rate may be zero and may result in zero earnings.

Rate of Return. Amount of income received from an investment, expressed as a percentage of the amount invested.

Realized Gains (Losses). The difference between the sale price of an investment and its book value. Gains/losses are “realized” when the security is actually sold, as compared to “unrealized” gains/losses which are based on current market value. See “Unrealized Gains (Losses).”

Reference Bills: FHLMC’s short-term debt program created to supplement its existing discount note program by offering issues from one month through one year, auctioned on a weekly or on an alternating four-week basis (depending upon maturity) offered in sizeable volumes (\$1 billion and up) on a cycle of regular, standardized issuance. Globally sponsored and distributed, Reference Bill issues are intended to encourage active trading and market-making and facilitate the development of a term repo market. The program was designed to offer predictable supply, pricing transparency, and liquidity, thereby providing alternatives to U.S. Treasury bills. FHLMC’s Reference Bills are unsecured general corporate obligations. This program supplements the corporation’s existing discount note program. Issues under the Reference program constitute the same credit standing as other FHLMC discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

Reference Notes: FHLMC’s intermediate-term debt program with issuances of 2, 3, 5, 10, and 30-year maturities. Initial issuances range from \$2 - \$6 billion with re-openings ranging \$1 - \$4 billion.

The notes are high-quality bullet structures securities that pay interest semiannually. Issues under the Reference program constitute the same credit standing as other FHLMC notes; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Repurchase Agreement (Repo). A short-term investment vehicle where an investor agrees to buy securities from a counterparty and simultaneously agrees to resell the securities back to the counterparty at an agreed upon time and for an agreed upon price. The difference between the purchase price and the sale price represents interest earned on the agreement. In effect, it represents a collateralized loan to the investor, where the securities are the collateral. Can be DVP, where securities are delivered to the investor’s custodial bank, or “tri-party” where the securities are delivered to a third party intermediary. Any type of security can be used as “collateral,” but only some types provide the investor with special bankruptcy protection under the law. Repos should be undertaken only when an appropriate Securities Industry and Financial Markets Association (SIFMA) approved master repurchase agreement is in place.

Reverse Repurchase Agreement (Reverse Repo). A repo from the point of view of the original seller of securities. Used by dealers to finance their inventory of securities by essentially borrowing at short-term rates. Can also be used to leverage a portfolio and in this sense, can be considered risky if used improperly.

Safekeeping. Service offered for a fee, usually by financial institutions, for the holding of securities and other valuables. Safekeeping is a component of custody services.

Secondary Market. Markets for the purchase and sale of any previously issued financial instrument.

Securities Industry and Financial Markets Association (SIFMA). The bond market trade association representing the largest securities markets in the world. In addition to publishing a Master Repurchase Agreement, widely accepted as the industry standard document for Repurchase Agreements, the SIFMA also recommends bond market closures and early closes due to holidays.

Securities Lending. An arrangement between an investor and a custody bank that allows the custody bank to “loan” the investors investment holdings, reinvest the proceeds in permitted investments, and shares any profits with the investor. Should be governed by a securities lending agreement. Can increase the risk of a portfolio in that the investor takes on the default risk on the reinvestment at the discretion of the custodian.

Sinking Fund. A separate accumulation of cash or investments (including earnings on investments) in a fund in accordance with the terms of a trust agreement or indenture, funded by periodic deposits by the issuer (or other entity responsible for debt service), for the purpose of assuring timely availability of moneys for payment of debt service. Usually used in connection with term bonds.

Spread. The difference between the price of a security and similar maturity U.S. Treasury investments, expressed in percentage terms or basis points. A spread can also be the absolute difference in yield between two securities. The securities can be in different markets or within the same securities market between different credits, sectors, or other relevant factors.

Standard & Poor's. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

STRIPS (Separate Trading of Registered Interest and Principal of Securities). Acronym applied to U.S. Treasury securities that have had their coupons and principal repayments separated into individual zero-coupon Treasury securities. The same technique and “strips” description can be applied to non-Treasury securities (e.g., FNMA strips).

Structured Notes. Notes that have imbedded into their structure options such as stepup coupons or derivative-based returns.

Supranational. Supranational organizations are international financial institutions that are generally established by agreements among nations, with member nations contributing capital and participating in management. These agreements provide for limited immunity from the laws of member countries. Bonds issued by these institutions are part of the broader class of Supranational, Sovereign, and Non-U.S. Agency (SSA) sector bonds. Supranational bonds finance economic and infrastructure development and support environmental protection, poverty reduction, and renewable energy around the globe. For example, the World Bank, International Finance Corporation (IFC), and African Development Bank (AfDB) have “green bond” programs specifically designed for energy resource conservation and management. Supranational bonds,

which are issued by multi-national organizations that transcend national boundaries. Examples include the World Bank, African Development Bank, and European Investment Bank.

Swap. Trading one asset for another.

TAP Notes: Federal Agency notes issued under the FHLB TAP program. Launched in 6/99 as a refinement to the FHLB bullet bond auction process. In a break from the FHLB's traditional practice of bringing numerous small issues to market with similar maturities, the TAP Issue Program uses the four most common maturities and reopens them up regularly through a competitive auction. These maturities (2, 3, 5, and 10 year) will remain open for the calendar quarter, after which they will be closed and a new series of TAP issues will be opened to replace them. This reduces the number of separate bullet bonds issued, but generates enhanced awareness and liquidity in the marketplace through increased issue size and secondary market volume.

Tennessee Valley Authority (TVA). One of the large Federal Agencies. A wholly owned corporation of the United States government that was established in 1933 to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. Power operations are separated from non-power operations. TVA securities represent obligations of TVA, payable solely from TVA's net power proceeds, and are neither obligations of nor guaranteed by the United States. TVA is currently authorized to issue debt up to \$30 billion. Under this authorization, TVA may also obtain advances from the U.S. Treasury of up to \$150 million. Frequent issuer of discount notes, agency notes, and callable agency securities.

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.

Total Return Portfolio. Entails use of an active management style in which return is pursued by utilizing a total return strategy (which includes both realized and unrealized gains and losses in the portfolio). Periodic cash flow analyses are needed in order to ensure that the portfolios are positioned to provide sufficient liquidity.

Treasuries. Collective term used to describe debt instruments backed by the U.S. government and issued through the U.S. Department of the Treasury. Includes Treasury bills, Treasury notes, and Treasury bonds. Also a benchmark term used as a basis by which the yields of nonTreasury securities are compared (e.g., "trading at 50 basis points over Treasuries").

Treasury Bills (T-Bills). Short-term direct obligations of the United States government issued with an original term of one year or less. Treasury bills are sold at a discount from face value and do not pay interest before maturity. The difference between the purchase price of the bill and the maturity value is the interest earned on the bill. Currently, the U.S. Treasury issues 4-week, 13-week, and 26-week TBills.

Treasury Bonds. Long-term interest-bearing debt securities backed by the U.S. government and issued with maturities of ten years and longer by the U.S. Department of the Treasury.

Treasury Notes. Intermediate interest-bearing debt securities backed by the U.S. government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury. The Treasury currently issues 2-year, 3-year, 5-year, and 10-year Treasury Notes.

Trustee. A bank designated by an issuer of securities as the custodian of funds and official representative of bondholders. Trustees are appointed to insure compliance with the bond documents and to represent bondholders in enforcing their contract with the issuer.

Uniform Net Capital Rule. SEC Rule 15c31 that outlines the minimum net capital ratio (ratio of indebtedness to net liquid capital) of member firms and nonmember broker/dealers.

Unrealized Gains (Losses). The difference between the market value of an investment and its book value. Gains/losses are “realized” when the security is actually sold, as compared to “unrealized” gains/losses which are based on current market value. See also “Realized Gains (Losses).”

Variable-Rate Security. A bond that bears interest at a rate that varies over time based on a specified schedule of adjustment (e.g., daily, weekly, monthly, semi-annually, or annually). See also “Floating Rate Note.”

Weighted Average Maturity (or just “Average Maturity”). The average maturity of all securities and investments of a portfolio, determined by multiplying the par or principal value of each security or investment by its maturity (days or years), summing the products, and dividing the sum by the total principal value of the portfolio. A simple measure of risk of a fixed-income portfolio.

Weighted Average Maturity to Call. The average maturity of all securities and investments of a portfolio, adjusted to substitute the first call date per security for maturity date for those securities with call provisions.

Yield Curve. A graphic depiction of yields on like securities in relation to remaining maturities spread over a time line. The traditional yield curve depicts yields on U.S. Treasuries, although yield curves exist for Federal Agencies and various credit quality corporates as well. Yield curves can be positively sloped (normal) where longer-term investments have higher yields, or “inverted” (uncommon) where longer-term investments have lower yields than shorter ones.

Yield to Call (YTC). Same as “Yield to Maturity,” except the return is measured to the first call date rather than the maturity date. Yield to call can be significantly higher or lower than a security’s yield to maturity.

Yield to Maturity (YTM). Calculated return on an investment, assuming all cash-flows from the security are reinvested at the same original yield. Can be higher or lower than the coupon rate depending on market rates and whether the security was purchased at a premium or discount. There are different conventions for calculating YTM for various types of securities.

Yield. There are numerous methods of yield determination. In this glossary, see also "Current Yield," "Yield Curve," "Yield to Call," and "Yield to Maturity."

**Attachment B
Form of Investment Pool/Deposit/Fund
Due Diligence Questionnaire**

	Reviewed Support <u>Attached</u>	<u>N/A</u>
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. Does the pool have a stable net asset value or floating net asset value?	☐	☐
4. What are the liquidity gates and fees?	☐	☐
5. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.	☐	☐
6. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.	☐	☐
7. A schedule for receiving statements and portfolio listings.	☐	☐
8. Are reserves, retained earnings, etc. utilized by the pool/fund?	☐	☐
9. A fee schedule, and when and how is it assessed.	☐	☐
10. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?	☐	☐
11. Did the pool present at least 10 years of return history?	☐	☐
12. Is the Pool audited? If so, by who?	☐	☐
13. Has the pool not been able to honor or has it limited withdrawal requests within the last 5 years?	☐	☐
14. Any deficiencies making the pool unsuitable? If so, what are they?	☐	☐

Reviewed By: _____
Investment Advisory Firm Representative

**Depository Bank
Due Diligence Questionnaire**

- | | <u>Reviewed
Support
Attached</u> | <u>N/A</u> |
|---|---|--------------------------|
| 1. Is the Bank/Institution a Qualified Public Depository (deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes). | ☐ | ☐ |
| 2. The Aviation Authority has completed the Public Deposit Identification Acknowledgement Form | ☐ and ☐ | |
| 3. The Aviation Authority has filed the Public Depositor Annual Report by November 30, of the reporting year | ☐ | ☐ |

Reviewed By: _____
Investment Advisory Firm

Attachment C

Permitted Investments/Benchmarks

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement ¹	Maximum Maturity ²
U.S. Treasury	100%	100%	N/A	See Section VIII. B.
GNMA		40%		
Other U.S. Government Guaranteed (e.g. AID, GTC)		10%		
Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB*	75%	40% ⁴	N/A	See Section VIII. B.
Federal Agency/GSE other than those above		10%		
Supranationals where U.S. is a shareholder and voting member	10%	\$5 million	Highest ST or Highest LT Rating Categories (A-1/P-1, AAA/Aaa, or equivalent by any two Rating Agencies)	See Section VIII. B.
Corporates	30% ³	\$5 million ³	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3 or equivalent by any two Rating Agencies)	See Section VIII. B.
Municipals	25%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent by any two Rating Agencies)	See Section VIII. B.
Agency Mortgage-Backed Securities (MBS)	25%	40% ⁴	N/A	See Section VIII. B. ⁵
Asset-Backed Securities (ABS)	25%	5%	Highest ST or LT Rating (A-1+/P-1, AAA/Aaa, or equivalent by any two Rating Agencies)	See Section VIII. B. ⁵
Non-Negotiable Certificate of Deposits and Savings Accounts	50%	None, if fully collateralized	None, if fully collateralized.	2 Years
Prime Commercial Paper (CP)	30% ³	\$5 million ³	Highest ST Rating Category (A-1/P-1, or equivalent by any two Rating Agencies)	270 Days
Repurchase Agreements (Repo or RP)	40%	20%	Counterparty (or if the counterparty is not rated by an NRSRO, then the counterparty's parent) must be rated in the Highest ST Rating Category (A-1/P-1, or equivalent by any two Rating Agencies) If the counterparty is a Federal Reserve Bank, no rating is required	90 Days
Money Market Funds (MMFs)	100%	25%	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent by any two Rating Agencies)	N/A

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement ¹	Maximum Maturity ²
Local Government Investment Pools	50%	25%	Highest Fund Quality and Volatility Rating Categories by all NRSROs,(AAAm/AAAf, S1, or equivalent by any Two Rating Agencies)	N/A

Notes:

¹ Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization (“NRSRO”), unless otherwise noted. ST=Short-term; LT=Long-term.

² There are bond resolutions that determine the maturity limits of the funds they govern.

³ Maximum allocation to all corporate and bank credit instruments is 30% combined. Per issuer maximum not to exceed \$5 million for corporates or commercial paper.

⁴ Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.

⁵ The maturity limit for MBS and ABS is based on the expected average life at time of purchase, measured using Bloomberg or other industry standard methods.

* Federal National Mortgage Association (FNMA); Federal Home Loan Mortgage Corporation (FHLMC); Federal Home Loan Bank or its District banks (FHLB); Federal Farm Credit Bank (FFCB)