



INVESTMENT POLICY

SECTION 1 – PURPOSE

The purpose of this Investment Policy Statement is to establish a clear understanding of the philosophy and the investment objectives for Financial Assets (the Assets) (defined under section, “Scope”) of the Great Lakes Water Authority (the GLWA). This document will further describe the standards that will be utilized by the GLWA’s Board in monitoring investment performance of the Assets, as well as, serve as a guideline for the GLWA’s Finance Officers, any investment manager retained by the GLWA, or financial institution(s) utilized by the GLWA in its routine financial activities.

The investment purpose of the GLWA is to endeavor to accumulate a pool of assets sufficient to build capital for future use with the corresponding obligations to support near-term and long-term needs of the GLWA. The Assets are to be invested consistent with the policies of the GLWA’s Board and this policy document, as amended from time to time and in accordance with Michigan Public Act 20 of 1943 Investment of Surplus Funds of Political Subdivisions (the Act).

SECTION 2 – GLWA CHIEF FINANCIAL OFFICER

The Great Lakes Water Authority Board hereby delegates to the Chief Financial Officer/Treasurer (the CFO), and such delegates as the CFO may designate from time-to-time, primary responsibility for recommending investment policies and strategies, trustees, investment managers and/or advisors, and other fiduciaries, and monitoring the performance of the Financial Services Group’s Managers, including but not limited to the Treasury Manager and Finance Director, advisors and other fiduciaries of the GLWA. This delegation includes the authority to open and close investment and depository accounts at authorized financial institutions and broker/dealers as noted in Section 9 and are authorized investments as noted in Section 10. This delegation is not intended to conflict with the Great Lakes Water Authority Board’s ultimate authority and responsibility for the Financial Assets of the GLWA. The Great Lakes Water Authority Board may at its discretion set policy and practices for periodic reporting of the results of investment performance, review of market conditions, and other such information as it may require.

This Investment Policy Statement and the policies and guidance herein are not intended to substitute or conflict with routine treasury reporting duties and practices of the Financial Services Group and the Chief Financial Officer as managed for the Great Lakes Water Authority.

SECTION 3 – DELEGATION OF AUTHORITY

The Chief Financial Officer delegates management responsibility for the day to day or routine activities of the investment program to the Treasury Manager, under the supervision of the Chief Financial Officer. The Treasury Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures in the absence of the Treasury Manager with the approval of the Chief Financial Officer.

The Treasury Manager shall establish written investment policy procedures for the operation of the investment program consistent with this Investment Policy Statement. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasury Manager.

With the CFO's approval, the Treasury Manager may delegate investment transactions to a qualified investment advisor to become the GLWA's money manager provided that said advisor meets standard industry qualifications.

SECTION 4 – SCOPE

This Investment Policy Statement applies to the Financial Assets, all transactions and investment decisions and practices for which the Treasury Manager has authority and oversight. Such assets shall include funds classified in the audited financial statements of the GLWA as Current Assets and Long-Term Assets.

This policy does not cover investment activities of pension fund or deferred compensation programs.

SECTION 5 – THE PRUDENT INVESTOR STANDARD

The Assets are to be invested and managed 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.

The standard of prudence to be used by the GLWA's Treasury Manager will be the "prudent person" and / or "prudent investor" standard and shall be applied in the context of managing the overall portfolio of assets. The Treasury Manager acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

SECTION 6 – ETHICS

Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of GLWA.

SECTION 7 – INVESTMENT OBJECTIVES

The investment policies of the GLWA will be carried out by means of investment strategies that reflect continuous evaluation of changing investment environments, judgment regarding the allocation of the GLWA's assets among different kinds of investment opportunities, identification of appropriate investment vehicles, and the making of specific investment decisions.

The objective of the investments will be to provide for the GLWA's continued operations on a reasonably consistent basis and to achieve income and growth of principal without undue exposure to risk. Therefore, the primary focus will be preservation of principal, income generation and capital appreciation a secondary consideration together with the current spending requirements and short and intermediate term capital requirements of GLWA. The Assets of GLWA will be managed in accordance with the following objectives, in priority order:

A. Safety – Safety of principal is the foremost objective of the GLWA's investment program.

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate risk.

1. Credit Risk – The GLWA will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
 - i. Limiting investments to the safest types of securities, and
 - ii. Pre-qualifying the financial institutions, broker/dealers, and intermediaries with which the GLWA will do business, and
 - iii. Diversifying the portfolio so that the potential losses on individual securities will be minimized.
2. Interest Rate Risk - The GLWA will minimize the risk that market value of the securities in the portfolio will fall due to changes in the general interest rates, by:
 - i. Matching investments with anticipated short and long-term cash flow requirements, and
 - ii. Minimizing the need to liquidate securities prior to maturity, and

- iii. Monitoring the maturity dates of individual securities and the weighted average maturity of the investment portfolio to ensure duration is commensurate with the cash flow characteristics of the GLWA.
 3. Custodial credit risk – The GLWA will minimize custodial risk by:
 - i. Using only financial institutions and brokers meeting pre-established criteria and
 - ii. Holding all securities in the name of Great Lakes Water Authority.
- B. Liquidity – The investment portfolio of the GLWA will remain sufficiently liquid to enable the GLWA to meet all operating requirements that may be reasonably anticipated. Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (such as payroll and debt service), as well as considering sizable blocks of anticipated revenue (water and sewerage fee collections).
- C. Return on Investments – The investment portfolio of the GLWA shall be designed and managed with the objective of attaining a benchmark rate of return throughout the budgetary and economic cycles, commensurate with GLWA’s investment risk constraints, operating cash flow and long-term capital needs. Portfolio performance will be measured against appropriate U.S. Treasury benchmarks as noted in Section 15.

Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
 - Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;
 - Unanticipated liquidity needs of the portfolio require that the security be sold.
- D. Diversification - It is the policy of the GLWA to maintain a diversified investment portfolio. Assets held in a common fund or concentration account and other investment funds will be diversified to reduce the risk of loss resulting from over concentration of assets in a specific maturity, individual financial institution(s) or a specific class of securities. Diversification strategies will be determined and revised by the Treasury Manager, from time to time to meet diversification objectives while seeking to attain market rates of return or the benchmark index standards, set out herein.

It is also understood that temporary deviations from this objective may be necessary from time to time in order to accommodate certain financial goals and obligations.

SECTION 8 – POOLING OF CASH AND INVESTMENTS (Internal Pooling of Investments)

The cash and investments in GLWA funds may be pooled into one investment portfolio to maximize investment earnings with the following exceptions:

- Water System and Sewer System funds must be held separately;
- Debt reserve and debt service funds may be held in one deposit account but separate

from other deposit accounts;

- Construction moneys must be held in separate, deposit accounts pursuant to the requirements of the specific bond series.

GLWA may aggregate moneys for deposit and investment purposes in the following manner:

- Trust Estate accounts (i.e., budget stabilization, improvement & extension, pension, receiving, emergency repair & replacement, and WRAP) can be aggregated and deposited together;
- Debt service funds, which may, regardless of applicable priority of lien, be held in one deposit account but separate from other deposit accounts;
- Debt service reserve funds, which may, regardless of applicable priority of lien, be held in one deposit account but separate from other deposit accounts;
- Operating and maintenance moneys may be deposited and held in one deposit account but may require additional accounting attention to ensure a record of the separation of these funds from moneys in the Trust Estate.

Pooled funds and investment earnings will be allocated on an accounting basis to the various funds and distributed as defined in the Master Bond Ordinance.

SECTION 9 – MAXIMUM MATURITIES

Investments made by GLWA must mature within five (5) years from the date of settlement unless the investments are matched to a specific obligation or debt of GLWA. This requirement applies to all investments except for Federal Agency mortgage-backed securities (“MBS”) and collateralized mortgage obligations (“CMOs”). For MBS and CMOs, the 5-year maximum maturity limitation will be applied to the weighted average life (“WAL”) calculation rather than the final maturity of the MBS or CMO security. **SECTION 10 – AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS**

- A. The Treasury Manager shall maintain a listing of financial institutions and broker/dealers authorized to provide investment services. The Treasury Manager will actively monitor and will conduct a quarterly evaluation of each financial institution and broker/dealer for credit worthiness to determine whether it should be on the “Qualified Institutions” listing. In addition, the Treasury Manager shall also maintain a record of investment policy certifications as shown at Addendum B from financial institutions and broker/dealers with which it conducts business.
 - i. For broker/dealers, the evaluation will include review of audited financial statements, audited financial statements, proof of Financial Industry Regulatory Authority (FINRA) registration, proof of approval to do business in Michigan, evidence of adequate insurance coverage, review of bank ratings by at least two independent sources, and certification of having read, understood, and agreeing to comply with the GLWA investment policy. The authorized listing of financial institutions, and / or broker/dealers shall be approved periodically by the Great Lakes Water Authority Audit Committee or as may be amended.

- ii. For financial institutions, the evaluation will include review of audited financial statements, proof of Michigan registration, evidence of adequate insurance coverage, and review of bank ratings by at least two independent sources.
- iii. For investment advisors, the evaluation will include a review of audited financial statements, proof that the advisor is registered with the SEC under the Investment Advisers Act of 1940 (Form ADV), and evidence of adequate insurance coverage. The investment advisor's Form ADV, annual financial statements, and insurance certificates shall be reviewed and updated on an annual basis. In addition, the Treasury Manager shall also maintain a record of investment policy certifications as shown at Addendum C from investment advisors with which it conducts business.

All investment advice and services provided by an investment advisor so appointed shall be rendered pursuant to a written contract between the investment advisor and GLWA and in accordance with GLWA's investment policy.

- B. Any designated investment advisors assisting the GLWA in the management of its overall portfolio may utilize their own approved list of broker/dealers to buy and sell investments in accordance with this policy.
- C. Whenever possible, all investment decisions should be made using a competitive bid process. A competitive bid can be executed through a bidding process involving at least three separate broker/dealers or financial institutions or through the use of a nationally recognized trading platform. If a competitive quote is not available, the Treasury Manager will document why the competitive bid process was not used and the process used to make the investment decision.

SECTION 11 – AUTHORIZED INVESTMENTS

In accordance with Michigan Public Act 20 of 1943, as it is currently written and as it automatically incorporates future amendments to the Act, and consistent with GLWA's bond indentures, State authorizing bond statutes and ordinances, the surplus funds of GLWA will be invested as follows:

- A. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- B. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank or a savings and loan association which is a member of the Federal Deposit Insurance Corporation or a credit union which is insured by the National Credit Union Administration. The bank, savings and loan association or credit union must be eligible to be a depository of surplus funds belonging to the State.
- C. Commercial paper rated at the time of purchase within the highest classifications

established by not less than two nationally recognized statistical ratings organizations (NRSRO) and which matures not more than 270 days after the date of purchase.

D. United States government or federal agency obligation repurchase agreements.

Repurchase agreements shall be negotiated only with dealers or financial institutions with which GLWA has negotiated a Master Repurchase Agreement. Repurchase Agreements must be signed with the bank or dealer and must contain provisions similar to those outlined in the Public Security Association's (or successor Association) model Master Repurchase Agreement.

E. Bankers' acceptances of United States banks.

Bankers' acceptances shall not mature more than 180 days after the date of purchase and must be rated at the time of purchase in the highest classification by at least two nationally recognized rating services.

F. Obligations of the state of Michigan or any of its political subdivisions that at the time of purchase are rated no lower than a single-A rating category and by not less than one (1) rating agency, see Addendum A.

G. Mutual funds registered under the investment company act of 1940, title I of Michigan chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. Included in this authorization are mutual funds that have net asset values (NAV) that fluctuate or can fluctuate on a periodic basis. A mutual fund is not disqualified as a permissible investment solely by reason of any of the following:

1. The purchase of securities on a when issued or delayed delivery basis;
2. The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned;
3. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes; and,
4. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.

The Treasury Manager is authorized to invest in mutual investment funds after investigation of the prospectus. After the initial investment has been approved, the Treasury Manager must continue to monitor the account, at least annually, by reviewing the account's suitability as an investment vehicle.

H. Obligations described in (A) through (G) if purchased through an inter-local agreement under the urban cooperation act of 1967, 1967(Ex Sess) P.A. 7, MCL 124.501 to 124.512. For purposes of this section, the objectives listed in Section 7 shall be altered in that the return on investment shall be of primary concern, followed by safety of capital and liquidity.

- I. Local Government Investment Pools (External Pooling of Investments) - Any investment into a pooled type account can only be made after the Treasury Manager has completed a thorough investigation. After the initial investment has been approved, the Treasury Manager must continue to monitor the account, at least annually, by reviewing the account's suitability as an investment vehicle. When reviewing the pooled account, the Treasury Manager shall take into account the following:
 1. Detailed description of eligible investments made by the pool or fund;
 2. A written statement of the investment policy and the pool or fund objectives;
 3. A description of interest calculations and how interest is distributed;
 4. An explanation on how the fund will handle gains and losses within the fund;
 5. A description on how the funds will be safeguarded, and how often the underlying securities will be marked-to-market;
 6. Audited Financial Statements;
 7. An explanation of who will be able to invest in the fund, how often investments can be made, and what size limitations, if any, will be in effect for the fund;
 8. A schedule for receiving statements and portfolio listings;
 9. A fee schedule, explaining how and when the fees will be assessed;
 10. Whether the fund will accept bond proceeds, and,
 11. Whether the pool or fund utilizes any type of reserves or a retained earnings account; and, if so, whether it affects the interest earnings of the participants;
 12. Whether or not the fund is rated by a nationally recognized statistical ratings organization (NRSRO).

SECTION 12 -INVESTMENT DIVERSIFICATION AND CONSTRAINTS

The purchase of certificates of deposit, commercial paper, banker's acceptances, municipal bonds, and repurchase agreements shall be restricted to the GLWA's or the investment advisor's own approved issuer list in which there is an establishment of a formal credit review process when purchasing these types of investments.

The percentage of the overall portfolio to be invested in certificates of deposit, commercial paper, bankers' acceptances, municipal bonds, or repurchase agreements shall be limited to a maximum of 50% for each security type.

The GLWA will also minimize the risk in placing a large portion of the portfolio with a single security issuer by limiting the exposure to 5% of the total portfolio at the time of purchase. This requirement does not apply to investments issued by the U.S. government or its agencies or instrumentalities, investments in money mutual funds, and investments in local government investment pools.

Although permitted under state law, collateralization will not be required on all investments with the exception of repurchase or reverse repurchase agreements. Repurchase and reverse repurchase agreements must be collateralized at not less than 102% of the market value of principal and accrued interest. All other investments will be looked at on a case-by-case basis taking into account liquidity, safety and yield.

SECTION 13 – SAFE KEEPING AND CUSTODY

All securities purchased by the GLWA under this section will be properly designated as an asset of the GLWA and shall be conducted on a delivery versus payment (DVP) basis. Certificates of Deposit purchased from financial institutions or brokers shall be held in a safe keeping account and evidenced by safe keeping receipt. Securities purchased from broker – dealers will be held in the name of the Great Lakes Water Authority by a third-party custodian in a safe keeping account designated by the GLWA Treasury Manager and evidenced by safekeeping receipts.

For purposes of this Policy, third party custodians shall be defined as a separate financial institution or a separate and distinct division or department of the same institution whose function is safe keeping and / or trust services. No withdrawal of such securities, in whole or in part, shall be made from safe keeping except by the GLWA Finance Officers as authorized herein, or by its designee.

The GLWA will execute third party custodial agreement(s) with its bank(s) and depository institution(s). Such agreements will include letters of authority from the GLWA, details as to responsibilities of each party, notification of securities purchases, sales, delivery, repurchase agreements, wire transfers, safe keeping and transaction costs, procedures in case of wire failure or other unforeseen mishaps including the liability of each party.

SECTION 14 – INTERNAL CONTROLS & PRACTICES

The Treasury Manager shall maintain a system of internal controls and practices which shall be designed, in addition to conforming to generally accepted accounting principles, to minimize losses of funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of GLWA.

SECTION 15 – REPORTING

The Treasury Manager shall generate a quarterly investment report that provides a clear picture of the status of the current investment portfolio. Each quarterly report will indicate any areas of policy concern and suggested or planned revisions of investment strategies. The report shall include:

- A. Discussion of investment strategy
- B. A summary of investments by type
- C. A summary of available funds and percentage invested
- D. A summary of interest income and average invested balances by financial asset classifications
- E. An analysis of investments by maturity dates

- F. A detailed report of all investments by type including fund, investment amount, rate, purchase date and maturity date and market price
- G. Reporting of portfolio as compared to the average U.S. Treasury Bills or U.S. Treasury Notes that most closely commensurate with the average life of the portfolio.

SECTION 16 - INVESTMENT POLICY ADOPTION

The GLWA's Investment Policy shall be adopted by resolution of the Great Lakes Water Authority Board. The Policy shall be reviewed periodically by the Great Lakes Water Authority Audit Committee. Any modifications made to the Investment Policy must be approved by the Great Lakes Water Authority Board.

Addendum A - Investment Grade Classifications

Long-Term Ratings

	<u>Standard & Poor's</u>	<u>Moody's Investors Service</u>	<u>Fitch Investors Service</u>	<u>Capacity to repay debt</u>
	AAA	Aaa	AAA	Extremely strong capacity
	AA+	Aa1	AA+	Very strong capacity
	AA	Aa2	AA	
	AA-	Aa3	AA-	
Investment Grade Debt	A+	A1	A+	Strong capacity; some susceptibility to adverse economic circumstances or effects
	A	A2	A	
	A-	A3	A-	
	BBB+	Baa1	BBB+	Adequate capacity; however <i>more likely</i> to be weakened due to adverse economic circumstances or effects
	BBB	Baa2	BBB	
	BBB-	Baa3	BBB-	
Non-Investment Grade or Speculative	BB+	Ba1	BB+	Vulnerable to default; faces <i>major</i> ongoing uncertainties or exposure
	BB	Ba2	BB	
	BB-	Ba3	BB-	

Short Term Note Ratings

<u>S & P</u>	<u>Moody's (Moody's investment grade)</u>
SP-1+	MIG-1
SP-1	-
SP-2	MIG-2
SP-3	MIG-3

Commercial Paper Ratings

An Issuer's ability to honor its' short-term obligations

<u>S&P</u>	<u>Moody's (Prime)</u>
A1	P1
A2	P2
A3	P3

Addendum B

Investment Policy

BANKER & BROKER / DEALER CERTIFICATION

I hereby certify that I have received a copy of the Investment Policy of the Great Lakes Water Authority "GLWA". I have read and fully understand the State of Michigan Public Act 20 of Public Acts of 1943, as amended. I have personally read the Investment Policy and agree to have all personnel involved with investing GLWA proceeds to comply with the terms of the Investment Policy, and Public Act 20, regarding the investment of GLWA funds. Any investment not conforming to GLWA Investment Policy will be disclosed promptly. We also pledge to exercise due diligence in informing GLWA in writing of all foreseeable risks associated with financial transactions conducted with the Great Lakes Water Authority.

Sign Name: _____

Print Name: _____

Title: _____

Institution: _____

Address: _____

City/State/Zip: _____

Date: _____

INVESTMENT POLICY – GREAT LAKES AUTHORITY

BOARD APPROVAL DATE: March 24, 2021

(See Attachment Page – Great Lakes Water Authority Investment Policy)

(See Attachment Public Act 20 of 1943")

Addendum C

Investment Policy

INVESTMENT ADVISOR CERTIFICATION

I hereby certify that I have received a copy of the Investment Policy of the Great Lakes Water Authority "GLWA". I have read and fully understand the State of Michigan Public Act 20 of Public Acts of 1943, as amended. I have personally read the Investment Policy and agree to have all personnel involved with investing GLWA proceeds to comply with the terms of the Investment Policy, and Public Act 20, regarding the investment of GLWA funds. Any investment not conforming to GLWA Investment Policy will be disclosed promptly. We also pledge to exercise due diligence in informing GLWA in writing of all foreseeable risks associated with financial transactions conducted with the Great Lakes Water Authority.

Additionally, I certify that, as an investment advisor, we are licensed to do business in the state of Michigan. We also certify that there are currently no potential conflicts of interest and agree to disclose any potential conflicts or risks to public funds that might arise out of business transactions between our firm and GLWA. In addition, we agree to be a fiduciary with respect to any security decisions on behalf of GLWA.

Sign Name: _____

Print Name: _____

Title: _____

Institution: _____

Address: _____

City/State/Zip: _____

Date: _____

INVESTMENT POLICY – GREAT LAKES AUTHORITY

BOARD APPROVAL DATE: March 24, 2021

(See Attachment Page – Great Lakes Water Authority Investment Policy)

(See Attachment Public Act 20 of 1943")

Addendum D

Glossary of Terms

Average Life

An estimate of the number of terms to maturity, taking the possibility of early payments into account. Average life is calculated using the weighted average time to the receipt of all future cash flows.

Agency Bond

A bond issued by a government sponsored enterprise (GSE) or agency. These bonds are not fully guaranteed in the same way as U.S. Treasury and municipal bonds. Examples include Fannie Mae, (FNMA) Federal National Mortgage Association; Freddie Mac (FHLMC) Federal Home Loan Mortgage Corporation, Sallie Mae Student Loan Marketing Association; Ginnie Mae (GNMA) Government National Mortgage Association.

Asked

The price at which securities are offered.

Banker's Acceptance (BA)

A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. Acceptances are traded at a discount from face value on the secondary market. Banker's acceptances are very similar to T-bills and are often used in money market funds.

Benchmark

A comparative base for measuring the performance of risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Bid

The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.)

Bond

A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, municipalities, states and U.S. and foreign governments to finance a variety of projects and activities.

Broker

A Broker brings buyers and sellers together for a commission

Certificate of Deposit

A time deposit with a specific maturity evidenced by a Certificate. Large denomination CDs are typically negotiable.

Collateral

Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits.

Collective Investment Fund

A fund that is operated by a trust company or a bank and handles a pooled group of trust accounts. Collective investment funds combine the assets of various individuals and organizations to create a larger, well-diversified portfolio.

Commercial Paper

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. Maturities on commercial paper rarely range any longer than 270 days. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Commercial paper is not usually backed by any form of collateral, so only firms with high-quality debt ratings will easily find buyers without having to offer a substantial discount (higher cost) for the debt issue.

A major benefit of commercial paper is that it does not need to be registered with the Securities and Exchange Commission (SEC) as long as it matures before nine months (270 days), making it a very cost-effective means of financing. The proceeds from this type of financing can only be used on current assets (inventories) and are not allowed to be used on fixed assets, such as a new plant, without SEC involvement.

Coupon

The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. Also, a certificate attached to a bond evidencing interest due on a payment.

Dealer

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

Discount

The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Discount securities

Non-interest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g. US Treasury Bills.

Diversification

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

Delivery versus Payment – DVP

A securities industry procedure in which the buyer's payment for securities is due at the time of delivery. Security delivery and payment are simultaneous. Also known as delivery against payment, delivery against cash, or from the sell side.

Federal Deposit Insurance Corporation (FDIC)

A federal agency that insure bank deposits, currently up to \$250,000 per deposit account. (If a depositor wants an FDIC insured account, the desired bank must be a participant in the FDIC program. Banks that are participants of the FDIC are required to display an official sign at each teller window or station where deposits are regularly received. The maximum dollar amount that is insured in a qualified account is \$250,000 per bank. In other words, it is possible for a depositor to deposit \$1 million in four different banks and each account will be fully insured.) (The different accounts that can be FDIC insured are NOW, checking, savings, Certificate of Deposits (CD) and money market deposit accounts.)

Federal Funds Rate

The rate of interest at which Fed Funds are traded. The Federal Reserve through open-market operations currently pegs this rate.

Federal Open Market Committee

The branch of the Federal Reserve Board that determines the direction of monetary policy. The FOMC is composed of the board of governors, which has seven members, and five reserve bank presidents. The president of the Federal Reserve Bank of New York serves continuously, while the presidents of the other reserve banks rotate their service of one-year terms.

Federal Reserve System

The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., twelve regional banks in major cities around the country.

Financial Institution

A state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United State government that maintains a principal office or branch office located in this state under the laws of this state of the United States.

Government-Sponsored Enterprise - GSE

Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Members of these sectors include 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 Treasuries. Examples of GSEs include: Federal Home Loan Bank, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal Farm Credit Bank and the Resolution Funding Corporation.

Investment Grade

A rating that indicates that a municipal or corporate bond has a relatively low risk of default. Bond rating firms, such as Moody's, use different designations consisting of upper- and lower- case letters 'A' and 'B' to identify a bond's credit quality rating. 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ('BB', 'B', 'CCC', etc.) are considered low credit quality, and are commonly referred to as "junk bonds".

Liquidity

1. The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets. 2.) The ability to convert an asset to cash quickly, also known as, "marketability".

Local Government Investment Pool (LGIP)

Public Act 20 of the Michigan code permits local governments to pool their assets for investment purposes. LGIP's need to be organized under state statute and act similar to a mutual fund in that each participant owns a portion of the total pool of investments. Most LGIP's are structured to be short-term investments similar to a money market fund and provide overnight liquidity.

Market Value

The price at which a security is trading and could presumably be purchased or sold.

Master Trust

A collection of funds from individual investors that are pooled together in order to obtain wholesale prices and rates unavailable for regular investors.

Master Repurchase Agreement

A written contract covering all future transactions between the parties to a repurchase – reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Maturity

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

Money Market

A segment of the financial market in which financial instruments with high liquidity and very short maturities are traded. The money market is used by participants as a means for borrowing and lending in the short term, from several days to just under a year. Money market securities consist of negotiable certificates of deposit (CDs), bankers' acceptances, U.S. Treasury bills, commercial paper, municipal notes, federal funds and repurchase agreements (repos).

Municipal Bond

A debt security issued by a state, municipality or county to finance its capital expenditures. Municipal bonds are exempt from federal taxes and from most state and local taxes, especially if you live in the state in which the bond is issued. At times taxable municipal bonds are issued to finance a project or activity that does not provide a major benefit to the public. In such cases, the federal government will not permit the tax-exemption that is a prominent feature of most municipal bonds.

Mutual Fund

An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as, bonds, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to

produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Each shareholder participates proportionally in the gain or loss of the fund. Mutual fund units, or shares, are issued and can typically be purchased or redeemed as needed at the fund's current net asset value (NAV) per share.

Offer

The price asked by a seller of securities. (When you are buying securities, you ask for an offer.)

Open Market Operations

Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank, as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

Portfolio

Collection of securities held by an investor.

Rate of return

The gain or loss on an investment over a specified period, expressed as a percentage increase over the initial investment cost. Gains on investments are considered to be any income received from the security plus realized capital gains.

Repurchase Agreement - Repo

A form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back the following day. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction, (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement.

Securities & Exchange Commission (SEC)

An agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC Rule 15C3-1

Requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called the net capital ratio.

Structured Notes

Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and corporations, which have imbedded options (e.g. call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure.

Total Return

When measuring performance, the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends and distributions realized over a given period of time.

Total return accounts for two categories of return: income and capital appreciation. Income includes interest paid by fixed-income investments, distributions or dividends. Capital appreciation represents the change in the market price of an asset.

Treasury Bills

A non-interest-bearing deposit security issued by the U.S. Treasury to finance national debt. Most bills are issued to mature in three months, six months or one-year.

Treasury Bonds

Long-term coupon bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having final maturities of more than ten years.

Treasury Notes

Medium-term coupon bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to ten years.

Yield

The rate of annual income return on an investment, expressed as a percentage. 1.) Income yield is obtained by dividing the current dollar income by the current market price for the security. 2.) Net yield or Yield to Maturity is the current income yield minus any premium above par plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.