LONG BEACH TRANSIT
STATEMENT OF INVESTMENT POLICY

I. INTRODUCTION

Long Beach Transit (LBT) shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of the Policy, in priority order of Safety, Liquidity and Return on investment.

II. SCOPE

This Investment Policy applies to the financial assets of LBT under the direct authority of the Board of Directors, excluding pension plan assets which are covered under a separate Investment Policy. These assets are invested in accordance with the California Government Code, Sections 53600 et seq., and all other applicable federal, state and local laws, as well as using prudent money management. They are accounted for under enterprise funds and in accordance with the principles of Governmental Accounting Auditing and Financial Reporting (GAAFR).

Activities which comprise prudent cash management include accurate cash projections, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations and a short-term borrowing program, if necessary, which includes coordinating working capital requirements and investment opportunity. Connected with the scope of these requirements are the many facets of an appropriate and secure short-term investment program.

III. OBJECTIVES

A. Safety

Safety of principal is the primary objective of LBT. Each investment transaction shall seek to ensure capital losses are avoided, whether from securities default, broker/dealer default or erosion of the market value. It is explicitly recognized herein, however, that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall investment return. LBT shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

1. Credit Risk. It is hereby defined as the risk of loss due to failure of an issuer of a security. Credit risk shall be mitigated by investing in only very safe institutions and by diversifying the fund so that the failure of any one institution would not unduly harm LBT's cash flow.

2. Market Risk. In money matters, it is defined as the risk of market value fluctuations due to overall changes in the economy and level of interest rates. The market risk shall be mitigated by limiting the weighted average maturity of the securities to two (2) years. Further, no investment shall be made which at the time of investment has a term remaining to maturity in excess of five (5) years. This excludes those securities underlying a repurchase or reverse repurchase agreement.

B. Liquidity

The investment portfolio will remain sufficiently liquid to enable LBT to meet all operating requirements which might be reasonably anticipated. Liquid short-term accounts represent vital objectives by which an adequate percentage of the portfolio should be maintained. They can be easily converted to cash, if necessary, to meet disbursement requirements. LBT may experience unexpected or unusual circumstances that result in some investments needing to be sold to meet a contingency. Emphasis should be on marketable securities with low sensitivity to market risk.

C. Return on Investment

LBT's investment portfolio shall be designed to attain a market-average rate of return through economic cycles. The market-average rate of return is defined as the average return on three (3)-month U.S. Treasury Bills. Whenever possible, and consistent with risk limitations, as defined herein, and prudent investment principals, LBT shall seek to augment returns above the market average rate of return. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Securities shall not be sold prior to maturity with the following exceptions: (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 target duration in the portfolio; or (3) liquidity needs of the portfolio require the security be sold.

D. Prudence

The standard of prudence to be used by the designated representative shall be the "prudent investor" standard and shall be applied in the context of managing the overall portfolio. Persons authorized to make investment decisions on behalf of local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard which states, "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."

E. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could 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 interest 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 whom business is conducted on behalf of the Agency.

IV. <u>INVESTMENT LIMITATIONS</u>

LBT adheres to its internal policy and context of the "prudent investor" rule by which its obligation and fiduciary responsibility are maintained within the statutory limits of the California Government Code, Sections 53600 et seq. Investments in any security or fund other than Local Agency Investment Fund requires concurrence from the President and Chief Executive Officer or his/her designee. Within the scope and content of these limitations, the following investments are authorized, as further limited herein:

FIGURE 1

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2019)[A] APPLICABLE TO ALL LOCAL AGENCIES[B]

See "Table of Notes for Figure 1" on the next page for footnotes related to this figure.

INVESTMENT TYPE	MAXIMUM REMAINING MATURITY[C]	MAXIMUM SPECIFIED % OF PORTFOLIO[D]	MINIMUM QUALITY REQUIREMENTS	GOVERNMENT CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations: CA and Others	5 years	None	None	53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S. Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40%[E]	None	53601(g)
Commercial Paper: Non-pooled Funds[F]	270 days or less	25% of the agency's money[G]	Highest letter and number rating by an NRSRO[H]	53601(h)(2)(C)
Commercial Paper: Pooled Funds[I]	270 days or less	40% of the agency's money[G]	Highest letter and number rating by an NRSRO[H]	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30%[J]	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	30%[K]	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	30%[K]	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days[L]	20% of the base value of the portfolio	None[M]	53601(j)
Medium-term Notes[N]	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds and Money Market Mutual Funds	N/A	20%[O]	Multiple[P,Q]	53601(l) and 53601.6(b)
Collateralized Bank Deposits[R]	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass–through and Asset Backed Securities	5 years or less	20%	"AA" rating category or its equivalent or better	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple[S]	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund[T]	N/A	None	None	16340
Supranational Obligations[U]	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)

TABLE OF NOTES FOR FIGURE 1

A *Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq., 53635, and 53635.8.*

B *Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.*

C *Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year remaining maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.*

D *Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.*

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

F *Includes agencies defined as a city, a district, or other local agency that do not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body.*

G *Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer.*

H *Issuing corporation must be organized and operating within the U.S., have assets in excess of $500 million, and debt other than commercial paper must be in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, have program wide credit enhancements, and have commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating agency.*

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

J *No more than 30 percent of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).*

K *No more than 30 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service (excludes negotiable certificates of deposit authorized under Section 53601(i)).*

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

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

N *"Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States."*

O *No more than 10 percent invested in any one mutual fund. This limitation does not apply to money market mutual funds.*

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

Q *A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of $500 million.*

R *Investments in notes, bonds, or other obligations under Section 53601(n) require that collateral be placed into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, among other specific collateral requirements.*

S *A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).*

T *Local entities can deposit between $200 million and $10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.*

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

V. QUALIFIED INSTITUTIONS AND DEALERS

LBT shall transact business only with banks, savings and loans and registered investment securities dealers. The purchase of any investment other than those purchased directly from the issuer shall be purchased either from an institution licensed by the state as a broker/dealer or a brokerage firm designated as a primary Government Dealer by the Federal Reserve Bank. Prior to any investment with the broker/dealer LBT shall request a letter from the institution stating their interests, references, status and fee structures. In addition, LBT shall provide a current edition of the Statement of Investment Policy to all brokers/dealers which have been previously approved to handle investment transactions.

All financial institutions and broker/dealers who desire to conduct investment transactions with LBT must supply the Executive Director and Vice President of Finance and Budget with proof of SEC investment adviser registration and proof of State of California registration.

VI. SAFEKEEPING OF SECURITIES

To protect against potential losses caused by collapse of individual securities dealers, all securities owned by LBT including collateral on repurchase agreements, but necessarily excluding securities used as collateral for reverse repurchase agreements, shall be placed with an independent third party for custodial safekeeping, acting as agent for LBT under the terms of a custody agreement executed by the custodial agent and LBT. All securities will remain in the name of LBT and be received and delivered pursuing standard delivery versus payment procedures.

VII. CONFIRMATION

The confirmations or receipts should include the following information: trade date, par value, maturity, rate, yield, settlement date, description, agency's name, net amount due, and third-party custodial information. Confirmations of all investment transactions are to be received within three (3) business days.

VIII. REPORTING

Under the provisions of Section 53646 of the California Government Code, LBT shall annually provide to the LBT Board of Directors a Statement of Investment Policy which the Board of Directors shall consider at a public meeting. Any changes in the Investment Policy shall also be considered by the Board of Directors at a public meeting.

The Executive Director and Vice President of Finance and Budget shall provide a quarterly report to the President and Chief Executive Officer, the City Auditor and the Board of Directors within 30 days following the end of the quarter covered by the report. This report shall include the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and monies held by LBT, and shall additionally include a description of any of LBT's funds, investments, or programs, that are under the management of contracted parties, including the lending programs. With respect to all securities held by LBT, and under management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund, the report shall also include a current market value as of the date of the report, and shall include the source of this same valuation.

The report shall state compliance of the portfolio to the Statement of Investment Policy and a statement of the ability of the local agency to meet its pool's expenditure requirements for the next six months.

IX. INTERNAL CONTROLS

LBT has developed a system of internal control, established and documented in writing. The controls are designed to minimize and prevent losses arising from fraud, employee error, misrepresentations of third parties and unanticipated change in financial markets or imprudent actions. Controls deemed most important are: control of collusion, including segregation of duties and separation of transaction authority from accounting and recordkeeping; written confirmation of telephone transactions and wire transfers; and conflict of interest.

X. DELEGATION OF AUTHORITY

The President and Chief Executive Officer shall assign the responsibility to the Executive Director and Vice President of Finance and Budget, who shall invest the agency's funds in accordance with the California Government code 53600 et seq., while meeting the criteria for safety and liquidity. The Executive Director and Vice President of Finance and Budget shall be responsible for all transactions undertaken and shall establish written procedures which include explicit delegation of authority and a system of control to regulate the activities of subordinate officials.

In the absence of the Executive Director and Vice President of Finance and Budget, the authority to execute investment transactions affecting the fund will be restricted and assigned jointly to the designated officers acting temporarily under the direction of the President and Chief Executive Officer.

XI. DIVERSIFICATIONS

LBT will diversify its investments by economic regions designated by the LBT Board of Directors considering the security type and institution involved. LBT's cash investment fund is prohibited against excessive concentration in a specific maturity sector.

XII. POLICY REVIEW

This Investment Policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield, safety measures, its compliance with current law, financial and economic trends, Governmental Accounting Standards Board (GASB), and to meet the needs of LBT.

XIII. GLOSSARY

AGENCIES: Federal agency securities and/or government-sponsored enterprises.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

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

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

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report of LBT. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

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

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

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

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).

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 a discount and redeemed at maturity for full face value *(e.g., U.S. Treasury Bills.)*

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

DURATION: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per entity.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government-sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing-related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

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., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

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

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

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

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.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him/her for this.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15(C)3-1: See Uniform Net Capital Rule.

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. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

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

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms, as well as nonmember broker-dealers in securities, maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

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Adam Carrillo
Secretary/Treasurer, Board of Directors

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Date