A93104

21R-558

Introduce: 12-6-21

RESOLUTION NO. A-93104

BE IT RESOLVED by the City Council of the City of Lincoln, Nebraska:

That the Lincoln Investment Policy dated November, 2021 for the purpose of setting objectives and parameters for the management of City funds, a copy of which is attached hereto marked as Attachment "A" and made a part hereof by reference, is hereby accepted and approved as the City's Investment Policy.

See further Council Proceedings on next page.

Introduced by:

Jeremy J. Wood

Approved as to Form & Legality:

City Attorney

AYES: Beckius, Bowers, Meginnis, Raybould, Shobe, Ward, Washington; NAYS: None.

Approved this 21st day of December, 2021:

Mayor

ADOPTED

DEC 13 2021

BY CITY COUNCIL

City of Lincoln, NE

Investment Policy

November 2021

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Investment Policy
City of Lincoln, NE

I. PURPOSE

The purpose of this Investment Policy ("Policy") is to set forth the investment objectives and parameters for the management of the funds of the City of Lincoln (hereinafter "City"). These policies are designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices. The Investment Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management for the City's funds.

Refer to the Glossary of Key Investment Terms located in Attachment for clarification of terms used throughout this IPS.

II. SCOPE

In accordance with Article IX Section 24 of the Charter for the City of Lincoln, Nebraska, as amended, this Policy applies to all cash and investments held or controlled by the City and shall be identified as "Available Funds" of the City with the exception of Pension Funds and Permanent Trust Funds.

III. INVESTMENT OBJECTIVES

Safety of Principal

The foremost objective of this investment program is the safety of the principal of those funds within the portfolios. Investment transactions shall seek to keep capital losses at a minimum, whether they are from securities defaults or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

From time to time, securities may be traded for other similar securities to improve yield, maturity, or credit risk. For these transactions, a loss may be incurred for accounting purposes to achieve optimal investment return, provided any of the following occurs with respect to the replacement security:

A. The yield has been increased, or

B. The maturity has been reduced or lengthened, or

C. The quality of the investment has been improved.

Maintenance of Liquidity

The portfolios shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. Periodical cash flow analyses will be completed to ensure that the portfolios are positioned to provide sufficient liquidity.

Return on Investment

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. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

IV. DELEGATION OF AUTHORITY

In accordance with City's Charter, the responsibility for providing oversight and direction in regard to the management of the investment program resides with City Mayor and in turn the management of the investment program has been delegated to the Finance Director. The daily management responsibility for the City's funds in the investment program and investment transactions is delegated to the City Treasurer. The Finance Director shall establish written procedures for the operation of the investment portfolio and a system of internal accounting and administrative controls to regulate the activities of employees. The City may employ an Investment Manager to assist in managing the City's portfolios. Such Investment Manager must be registered under the Investment Advisors Act of 1940.

V. STANDARDS OF PRUDENCE

The standard of prudence to be used by investment officials shall be the "Prudent Person" standard and shall be applied in the context of managing the overall investment program. Investment officers acting in accordance with written procedures and this 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 expectation are reported to the City Council in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this Policy. The "Prudent Person" rule states the following:

> Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment.

While the standard of prudence to be used by investment officials who are officers or employees is the "Prudent Person" standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of "Prudent Expert". The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the contractor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

VI. ETHICS AND CONFLICTS OF INTEREST

Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Also, employees involved in the investment process shall disclose to the City Council any material financial interests in financial institutions that conduct business with the City Council and they shall further disclose any material personal financial/investment positions that could be related to the performance of the City's investment program.

VII. INTERNAL CONTROLS AND INVESTMENT PROCEDURES

The Finance Director shall establish a system of internal controls and operational procedures that are in writing and made a part of the City's operational procedures. The internal controls should be designed to prevent losses of funds, which might arise from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees. The written procedures should include reference to safekeeping, repurchase agreements, separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. No person may engage in an investment transaction except as authorized under the terms of this Policy.

Independent auditors as a normal part of the annual financial audit to the City shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

VIII. CONTINUING EDUCATION

The Finance Director and Treasurer and appropriate staff shall annually complete 8 hours of continuing education in subjects or courses of study related to investment practices and products.

IX. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

Authorized City staff and Investment Advisors shall only purchase securities from financial institutions, which are Qualified Institutions by the City or institutions designated as "Primary Securities Dealers" by the Federal Reserve Bank of New York. Authorized City staff and Investment Advisors shall only enter into repurchase agreements with financial institutions that are Qualified Institutions and Primary Securities Dealers as designated by the Federal Reserve Bank of New York. Qualified Institutions may be either Banks or Broker/Dealers with offices located in the State of Nebraska. The Finance Director and/or the Investment Advisors shall maintain a list of financial institutions and broker/dealers that are approved for investment purposes and only firms meeting the following requirements and completing the Broker/Dealer Questionnaire will be eligible to serve as Qualified Institutions:

1) regional dealers that qualify under Securities and Exchange Council Rule 15C3-1 uniform net capital rule);
2) capital of no less than $10,000,000, or investments cleared through broker/bank that has $10,000,000 capital
3) registered as a dealer under the Securities Exchange Act of 1934;
4) member of the Financial Industry Regulatory Authority (FINRA),
5) registered to sell securities in Nebraska; and
6) the firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.

All brokers, dealers and other financial institutions deemed to be Qualified Institutions shall be provided with current copies of the City's Investment Policy. Additionally, the qualified representative of the business organization seeking to transact investment business shall execute a written instrument substantially to the effect that the qualified representative has received and reviewed this Investment Policy, and acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude investment activities with the City. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the City transacts business.

X. MATURITY AND LIQUIDITY REQUIREMENTS

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of current operating funds shall have maturities of no longer than twenty-four (24) months.

Investments in construction funds, operating funds and other non-operating funds ("core funds") shall have a term appropriate to the need for funds and in accordance with debt covenants, but in no event shall exceed ten (10) years.

The maturities of the underlying securities of a repurchase agreement will follow the requirements of the Master Repurchase Agreement.

XI. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

After the Treasurer or the Investment Advisor has determined the approximate maturity date based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) Qualified Institutions and/or Primary Dealers must be contacted and asked to provide bids/offers on securities in questions. Bids will be held in confidence until the bid deemed to best meet the investment objectives is determined and selected. The City will accept the offerings which provide the highest rate of return within the maturity required and within the guidelines of this Policy.

The City recognizes that a competitive offering process is not always necessary or is not always in the best interest of the City. On these occasions, the Treasurer or the Investment Advisory are authorized to purchase a security without seeking competitive offerings. Examples of these occasions are:

A. When time constraints due to unusual circumstances preclude the use of the competitive bidding process

B. When no active market exists for the issue being traded due to the age or depth of the issue

C. When a security is unique to a single dealer, for example, a private placement

D. When the transaction involves new issues or issues in the "when issued" market

E. Market conditions are changing rapidly

Overnight sweep repurchase agreements will not be bid, but may be placed with the City's depository bank relating to the demand account for which the repurchase agreement was purchased.

XII. AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION

Investments should be made subject to the cash flow needs and such cash flows are subject to revisions as market conditions and the City's needs change. However, when the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, the Finance Director or designee may sell the investment at the then-prevailing market price and place the proceeds into the proper account at the City's custodian.

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the City. The Finance Director or designee shall have the option to further restrict investment percentages from time to time based on market conditions, risk and diversification investment strategies. The percentage allocation requirements for investment types and issuers are calculated based on the original cost of each investment versus the market value of total investments. The allocation requirements apply at the time of purchase. Non-compliance due to a decrease in investment balance does not require corrective action. Investments not listed in this Policy are prohibited.

The allocation limits and security types do not apply to the investment of debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument.

A. United States Government Securities

1. Purchase Authorization

The Treasurer may invest in direct negotiable obligations, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. Such securities will include, but not be limited to the following:

Cash Management Bills
Treasury Securities – State and Local Government Series ("SLGS")
Treasury Bills
Treasury Notes
Treasury Bonds
Treasury Strips

2. Portfolio Composition

A maximum of 100% of portfolio may be invested in the United States Government Securities.

3. Maturity Limitations

The maximum length to maturity of any direct investment in the United States Government Securities is ten (10) years from the date of purchase.

B. United States Government Agencies

1. Purchase Authorization

The Treasurer may invest in bonds, debentures, notes or callables issued or guaranteed by the United States Governments agencies, provided such obligations are backed by the full

faith and credit of the United States Government. Such securities will include, but not be limited to the following:

Government National Mortgage Association (GNMA)
-GNMA guaranteed mortgage-backed bonds
-GNMA guaranteed pass-through obligations
United States Export – Import Bank
-Direct obligations or fully guaranteed certificates of beneficial ownership
Farmer Home Administration
-Certificates of beneficial ownership
Federal Financing Bank
-Discount notes, notes and bonds
Federal Housing Administration Debentures
General Services Administration
United States Maritime Administration Guaranteed
-Title XI Financing
New Communities Debentures
-United States Government guaranteed debentures
United States Public Housing Notes and Bonds
-United States Government guaranteed public housing notes and bonds
United States Department of Housing and Urban Development
-Project notes and local authority bonds

2. Portfolio Composition

A maximum of 75% of portfolio may be invested in United States Government agencies.

3. Limits on Individual Issuers

A maximum of 50% of available funds may be invested in individual United States Government agencies.

4. Maturity Limitations

The maximum length to maturity for an investment in any United States Government agency security is ten (10) years from the date of purchase.

C. Federal Instrumentalities (United States Government sponsored agencies)

1. Purchase Authorization

The Treasurer may invest in bonds, debentures or notes which may be subject to call, issued or guaranteed as to principal and interest by United States Government sponsored agencies (Federal Instrumentalities) which are non-full faith and credit agencies limited to the following:

Federal Farm Credit Bank (FFCB)
Federal Home Loan Bank or its district banks (FHLB)
Federal National Mortgage Association (FNMA)
Federal Home Loan Mortgage Corporation (Freddie-Macs)
Student Loan Marketing Association (Sallie-Mae)

2. Portfolio Composition

A maximum of 80% of portfolio may be invested in Federal Instrumentalities.

3. Callable Securities

A maximum of 20% of available funds may be invested in Federal Instrumentalities callable securities.

4. Limits on Individual Issuers

A maximum of 40% of available funds may be invested in any one issuer.

5. Maturity Limitations

The maximum length to maturity for an investment in any Federal Instrumentality security is ten (10) years from the date of purchase.

D. Interest Bearing Time Certificates of Deposit or Saving Accounts

1. Purchase Authorization

The Treasurer may invest in non-negotiable interest bearing time certificates of deposit or savings accounts in banks organized under the laws of this state and in national banks organized under the laws of the United States and doing business and situated in the State of Nebraska. Additionally, the bank shall not be listed with any recognized credit watch information service. Time Deposits carrying FDIC insurance on up to $250,000 per institution are permitted without restriction. Time deposits that exceed FDIC insurance limits shall be collateralized as required by the Public Funds Deposit Security Act.

2. Portfolio Composition

A maximum of 25% of portfolio may be invested in non-negotiable interest-bearing time certificates of deposit.

3. Limits on Individual Issuers

A maximum of 15% of available funds may be deposited with any one issuer.

4. The maximum maturity on any certificate shall be no greater than three (3) years from the date of purchase.

E. Repurchase Agreements

1. Purchase Authorization

a. The Treasurer may invest in repurchase agreements composed of only those investments based on the requirements set forth by the City's Master Repurchase Agreement. All firms are required to sign the Master Repurchase Agreement prior to the execution of a repurchase agreement transaction.

b. A third-party custodian with whom the City has a current custodial agreement shall hold the collateral for all repurchase agreements with a term longer than one (1) business day. A clearly marked receipt that shows evidence of ownership must be supplied to the City Treasurer and retained.

c. Securities authorized for collateral are negotiable direct obligations of the United States Government, Government Agencies, and Federal Instrumentalities with maturities under five (5) years and must have a market value for the principal and accrued interest of 102 percent of the value and for the term of the repurchase agreement. Immaterial short-term deviations from 102 percent requirement are permissible only upon the approval of the Treasurer.

2. Portfolio Composition

A maximum of 50% of portfolio may be invested in repurchase agreements excluding one (1) business day agreements and overnight sweep agreements.

3. Limits on Individual Issuers

A maximum of 25% of available funds may be invested with any one institution.

4. Limits on Maturities

The maximum length to maturity of any repurchase agreement is 90 days from the date of purchase.

F. Commercial Paper

1. Purchase Authorization

The Treasurer may invest in commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO), rated, at the time of purchase, "P-1" by Moody's and "A-1" by Standard & Poor's. Entity must be organized and operating in the United States as a general corporation. Additionally, the company shall not be listed with any recognized credit watch information service.

2. Portfolio Composition

A maximum of 30% of portfolio may be directly invested in prime commercial paper.

3. Limits on Individual Issuers

A maximum of 10% of available funds may be invested with any one issuer.

4. Maturity Limitations

The maximum length to maturity for prime commercial paper shall be 180 days from the date of purchase.

G. High Grade Corporate Notes

1. Purchase Authorization

The Treasurer may invest in corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a long term debt rating, at the time of purchase, at a minimum "Aa3" by Moody's and a minimum long term debt rating of "AA-" by Standard & Poor's. Additionally, the company shall not be listed with any recognized credit watch information service.

2. Portfolio Composition

A maximum of 15% of portfolio may be directly invested in corporate notes.

3. Limits on Individual Issuers

A maximum of 5% of available funds may be invested with any one issuer.

4. Maturity Limitations

The maximum length to maturity for corporate notes shall be 3 years from the date of purchase.

H. Bankers' acceptances

1. Purchase Authorization

The Treasurer may invest in Bankers' acceptances issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, at the time or purchase, the short-term paper is rated, at a minimum, "P-1" by Moody's Investors Services and "A-1" Standard & Poor's. Additionally, the bank shall not be listed with any recognized credit watch information service.

2. Portfolio Composition

A maximum of 30% of portfolio may be directly invested in Bankers' acceptances

3. Limits on Individual Issuers

A maximum of 10% of available funds may be invested with any one issuer.

4. Maturity Limitations

The maximum length to maturity for Bankers' acceptances shall be 180 days from the date of purchase.

I. State and/or Local Government Taxable and/or Tax-Exempt Debt (Municipal Bonds)

1. Purchase Authorization

a. The Treasurer may invest in a state and/or local government taxable and/or tax-exempt debt, general obligation and/or revenue bonds, purchases are limited to securities rated at least "AA-" or "Aa3" or the equivalent at the time of purchase by at least two Nationally Recognized Statistical Rating Organization (NRSRO).

b. If a municipal bond as noted in section I has been pre-refunded and now has collateral backing the bond, the treasurer may invest in these securities without meeting the underlying credit rating requirements. Acceptable collateral would include the following:
- Obligations of the US Treasury (Treasury Bills, Notes, bonds and SLUGs)
- Government sponsored agencies (FHLB, FNMA, FHLMC, FFCB)
- Cash

2. Portfolio Composition

A maximum of 20% of portfolio may be invested in taxable and tax-exempt debts.

3. Maturity Limitations

a. 15% of the allowable composition is a maximum length to maturity for an investment in any state or local government debt security of three (3) years from the date of purchase.

b. 5% of the allowable composition is a maximum length to maturity for an investment in any state or local government debt security of five (5) years from the date of purchase.

4. Tax Increment Financing (TIF) programs

The City Treasurer may also invest in either Taxable or Tax-Exempt Local Government Debt related to Tax Increment Financing (TIF) programs.

J. Registered Investment Companies (Money Market Mutual Funds)

1. Investment Authorization

The Treasurer may invest in shares in open-end and no-load funds provided such funds are registered under the Federal Investment Company Act of 1940 and operate in accordance with 17 C.F.R. § 270.2a-7, which stipulates that money market funds must have an average weighted maturity of 90 days or less. In addition, the share value of the money market funds must equal to $1.00.

2. Portfolio Composition

A maximum of 50% of portfolio may be invested in money market funds excluding one (1) business day overnight sweep agreements.

3. Limits of Individual Issuers

A maximum of 25% of available funds may be invested with any one money market fund.

4. Rating Requirements

The money market funds shall have a rating of "AAm" or "AAm-G" or better by Standard & Poor's or the equivalent by one or more NRSRO.

5. Due Diligence Requirements

A thorough investigation of any money market fund is required prior to investing, and on a continual basis. A current prospectus must be obtained.

K. Investment Agreements

Investment Agreements with provisions initially rated at least "AA-" and "Aa3" by S&P and Moody's with the provision that (i) if the provider is downgraded below "AA-" or "Aa3" by S&P or Moody's the provider must deliver collateral of the type described in paragraph (A) above at a margin percentage of 103%, or that described in paragraph (B) or (C) above at a margin percentage of 104%, and (ii) if the provider is further downgraded below "A-" or "A3" by S&P or Moody's the Issuer will have the right to terminate the agreement and receive all invested amounts plus accrued but unpaid interest without penalty. Investment Agreements must be approved the Bond Insurer, if applicable. Any other investment instruments for bond proceeds will be approved in writing by the appropriate organizations.

L. Mortgage-Backed Securities (MBS)

1. Investment Authorization

The Treasurer may invest in mortgage-backed securities (MBS) which are usually based on mortgages that are guaranteed by a government agency for payment of principal and a guarantee of timely payment.

2. Portfolio Composition

A maximum of 15% of portfolio may be invested in MBS.

3. Limits of Individual Issuers

A maximum of 5% of available funds may be invested with any one MBS.

4. Rating Requirements

MBS shall be AA rated or better by Standard & Poor's, or the equivalent by one or more NRSRO.

5. Maturity Limitations

A maximum length to maturity for an investment in any MBS is five (5) years from the date of purchase.

M. Asset-Backed Securities (ABS)

1. Investment Authorization

The Treasurer may invest in asset-backed securities (ABS) which are bonds or notes backed by financial assets.

2. Portfolio Composition

A maximum of 10% of portfolio may be invested in ABS.

3. Limits of Individual Issuers

A maximum of 5% of available funds may be invested with any one ABS.

4. Rating Requirements

ABS shall be AA rated or better by Standard & Poor's, or the equivalent by one or more NRSRO.

5. Weighted Average Life (WAL)

ABS shall have a Weighted Average Life (WAL) less than three (3) years at the time of purchase.

N. Bond Funds

1. Investment Authorization

The Treasurer may invest in bond funds.

2. Portfolio Composition

A maximum of 25% of portfolio may be invested in bond funds.

3. Limits of Individual Issuers

A maximum of 10% of available funds may be invested with any one bond fund.

4. Rating Requirements

Bonds funds shall be AA rated or better by Standard & Poor's, or the equivalent by one or more NRSRO.

5. Weighted Average Life (WAL)

Bond funds shall have a weighted Average Life (WAL) less than three (3) years at the time of purchase

O. Other Fixed Term Investments

Other Fixed Term investments from qualified programs such as the Nebraska Public Agency Investment Trust "NPAIT" and the Short-Term Federal Investment Trust "STFIT" are permitted upon review and approval by City Council. CDARS, The Certificate of Deposit Account Registry Service, is included in this category.

1. Program Limits

   A maximum of 30% of portfolio may be invested in total among all qualified programs.

2. Maturity Restriction

   Fixed Term investments of qualified programs will have a maximum stated final maturity of five (5) years or a Weighted Average Life less than three (3) years.

XIII. DERIVATIVES AND REVERSE REPURCHASE AGREEMENTS

Investment in any derivative products or the use of reverse repurchase agreements requires specific City Council approval prior to their use. If the City Council approves the use of derivative products, the Finance Director shall develop sufficient understanding of the derivative products and have the expertise to manage them. A "derivative" is defined as a financial instrument the value of which depends on or is derived from the value of one or more underlying assets or indices or asset values. If the City Council approves the use of reverse repurchase agreements or other forms of leverage, the investment shall be limited to transactions in which the proceeds are intended to provide liquidity and for which the Finance Director has sufficient resources and expertise to manage them.

XIV. PERFORMANCE MEASUREMENTS

To assist in the evaluation of the portfolios' performance, the City will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks will allow the City to measure its returns against other investors in the same markets.

A. Investment performance of funds designated as short-term funds and other funds that must maintain a high degree of liquidity will be compared to the return on short-term benchmarks such as the 90-Day or Six-Month U.S. Treasury Bill Indexes. Current operating funds shall have maturities of no longer than twenty-four (24) months.

B. Investment performance of funds designated as core funds and other non-operating funds that have a longer-term investment horizon will be compared to an index comprised of U. S. Treasury or Government securities. The appropriate index will have a duration and asset mix that approximates the portfolios and will be utilized as a benchmark to be compared to the portfolios' total rate of return. Investments of bond reserves, construction funds, and other non-operating funds ("core funds") shall have a term appropriate to the need for funds and in accordance with debt covenants, but in no event shall exceed ten (10) years.

XV. REPORTING

The Finance Director and/or Investment Advisor shall provide the City Council with a "Quarterly Investment Report" that summarizes but not limited to the following:

A. Recent market conditions, economic developments and anticipated investment conditions.

B. The investment strategies employed in the most recent quarter.

C. A description of all securities held in investment portfolios at month-end.

D. The total rate of return for the quarter and year-to-date versus appropriate benchmarks.

E. Any areas of Policy concern warranting possible revisions to current or planned investment strategies. The market values presented in these reports will be consistent with accounting guidelines in GASB Statement 31 pertaining to the valuation of investments and the treatment of unrealized gains/losses.

On an annual basis, the Finance Director shall submit to the City Council a written report on all invested funds. The annual report shall provide all, but not limited to, the following: a complete list of all invested funds, name or type of security in which the funds are invested, the amount invested, the maturity date, earned income, the book value, the market value, the yield on each investment and a portfolio stress test analysis.

The annual report will show performance on both a book value and total rate of return basis and will compare the results to the above-stated performance benchmarks. All investments shall be reported at fair value per GASB Statement 31. Investment reports shall be available to the public.

The annual report is also used to complete the Deposits and Investments note in the City's Comprehensive Annual Financial Report.

XVI. THIRD-PARTY CUSTODIAL AGREEMENTS

Securities, with the exception of Certificates of Deposits and Other Fixed Term Investments, shall be held with a third-party custodian; and all securities purchase by, and all collateral obtained by the City should be properly designated as an asset of the City. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Nebraska, or any other state or territory of the United States which has a branch or principal place of business in the State of Nebraska, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Nebraska. Certificates of deposits will be placed in the provider's safekeeping department for the term of the deposit.

The custodian shall accept transaction instructions only from those persons who have been duly authorized by the Finance Director and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be permitted unless directed by such a duly authorized person.

The custodian shall provide the Finance Director with safekeeping receipts that provide detail information on the securities held by the custodian. On a monthly basis, the custodian will also provide reports that list all securities held for the City, the book value of holdings and the market value as of month-end.

Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

XVII. INVESTMENT COMMITTEE

The City Mayor will establish an Investment Committee for the purpose of formulating investment strategies and goals, monitor the performance and structure of the City's investment portfolio and make recommendations/changes to the Policy. Members of the Committee may include the Finance Director, Treasurer and any other members as designated by the City Mayor.

The Investment Committee, or quorum of the committee, shall meet quarterly, or as often as deemed necessary, to review, discuss and affirm or alter the current investment strategy.

XVIII. INVESTMENT POLICY ADOPTION

The Policy shall be adopted by City resolution. The Finance Director and Investment Committee shall be responsible for an annual review of the Policy and for recommending any Policy changes to the City Council. The City Council shall approve any modification made thereto.

APPROVED AND ADOPTED BY THE CITY COUNCIL ON_____.

_____

Title: _____

_____

Title: _____

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Title: _____

GLOSSARY OF KEY INVESTMENT TERMS

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.

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 sixth-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 non-competitive 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 Market Association (BMA). 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 BMA also recommends bond market closures and early closes due to holidays.

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 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, has 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.

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.

Corporate Note. A debt instrument issued by a corporation with a maturity of greater than one year and less than ten 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 <u>not</u> 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.

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.

Derivative. A financial instrument whose value is based on or determined by another security, financial instrument or index.

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. Reopenings 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.

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. Non-interest-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. MacAuley 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 primary 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 $100,000 per depositor per bank.

Federal Farm Credit Bank (FFCB). One of the large Federal Agencies. A Government Sponsored Enterprise (GS) 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 Chair.

Financial Industry Regulatory Authority (FINRA). The independent, non-governmental organization that writes and enforces the rules governing registered brokers and broker-dealer firms in the United States. FINRA acts as a self-regulatory organization which regulates member brokerage firms and exchange markets and is the successor to the National Association of Securities Dealers.

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 on a predetermined schedule. See also "Variable Rate Security."

Focus Report. A monthly and quarterly report on net capital position submitted by members of the New York Stock Exchange to the exchange. Also called *Financial and Operational Combine Uniform Single Report.*

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. top U.S. investors 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 is actually full faith and credit of the U.S.).

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 Treasuries. Some consider GSEs to be stealth recipients of corporate welfare. 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.

Interest Rate. See "Coupon Rate".

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 Grade. Bonds considered suitable for preservation of invested capital; 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. Also, a term describing the marketability of a money market security correlating to the narrowness of the spread between the bid and ask prices.

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 Bond Market Association (BMA) 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 maturities 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' acceptances, etc.) are issued and traded.

Money Market Mutual Fund (MMF). A type of mutual fund that invests solely in money market instruments, such as 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 "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, some of which can be very risky and complicated. 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. 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 (bond, equity, money fund); 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.

NRSRO. A "Nationally Recognized Statistical Rating Organization." 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. 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. 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. Any of a group of designated government securities dealers designated by to 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 considered the largest players 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 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.

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 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 reopenings 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 BMA 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.

Sallie Mae. See "Student Loan Marketing Association."

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

Securities Lending. An arrangement between and 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.

SLUGs. State and local government series. Special nonmarketable certificates, notes, and bonds offered by the Federal government to state and local governments as a means to invest proceeds from their own tax-exempt financing. Interest rates and maturities comply with IRS arbitrage provisions.

Spread. The difference between the price of a security and similar maturity 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 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 step-up coupons or derivative-based returns.

Student Loan Marketing Association (SLMA or "Sallie Mae"). One of the large Federal Agencies. A federally chartered public corporation (GSE) created to provide liquidity and a secondary market for lenders for loans to students and educational institutions. In 1997, SLMA initiated a process of unwinding its status as a GSE; however, until the process is complete, all debt issued will be considered GSE debt until maturity. SLMA 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 education sector. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its "global note" program.

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 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 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.

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 non-Treasury 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 T-Bills.

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. The Treasury stopped issuing Treasury Bonds in August 2001.

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, 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 ensure compliance with the bond documents and to represent bondholders in enforcing their contract with the issuer.

Uniform Net Capital Rule. SEC regulation 15C3-1 that outlines the minimum net capital ratio (ratio of indebtedness to net liquid capital) of member firms and non-member 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 actual 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 timeline. The traditional yield curve depicts yields on 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 and 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."

BROKER/DEALER QUESTIONNAIRE

City of Lincoln, Nebraska Requirements

To be eligible to serve the City of Lincoln, you must meet the requirements listed below. Please check all boxes that apply. If any boxes are left blank, please explain.

- ☐ Regional dealers that qualify under Securities and Exchange Council Rule 15c3-1 (net capital rule)
- ☐ Capital of no less than $10,000,000, or investments cleared through broker/bank that has $10,000,000 capital
- ☐ Registered as a dealer under the Securities Exchange Act of 1934
- ☐ Member of the Financial Industry Regulatory Authority (FINRA)
- ☐ Registered to sell securities in Nebraska
- ☐ Firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years

Please explain any box above that was not checked:

Please provide the most recent AUDITED financial statements for your firm.

Please provide your most recent FOCUS report.

Firm and Broker Information

Name of Firm:

Name of Parent Company (*if applicable*):

National Address:

Firm's CRD Number:

Phone:

Fax Number:

Nebraska Office Address (must have NE location):

Primary Representative:

Name:

Title:

Email:

CRD#:

Years with the Firm:

Backup Representative:

Name:

Title:

Email:

CRD#:

Years with the Firm:

Has/have the representative(s) listed above been authorized by the firm to be the account representative(s) for the City of Lincoln, Nebraska?

By Whom?

Identify all personnel who will be trading with the City of Lincoln, Nebraska cash/investment management staff if not listed above (additional back-ups)

Name	Title	CRD number

PLEASE ATTACH RESUMES of all the above persons.

Have all the above personnel read the City of Lincoln, Nebraska investment policy?

- ☐ Yes
- ☐ No

If the above answer is no, please explain:

What was your firm's trading volume in United States Government and Agency securities for the most recent fiscal year?

Firm-wide? $

Number of Transactions:

Local Office $

Number of Transactions:

Which instruments are offered regularly by your local desk? Please check all that apply.

- ☐ U.S. Government Securities
- ☐ U.S. Government Agencies
- ☐ U.S. Government Sponsored Agencies
- ☐ Interest Bearing Time Deposit or Saving Accounts
- ☐ Repurchase Agreements
- ☐ Commercial Paper
- ☐ High Grade Corporate Notes
- ☐ Banker's Acceptances
- ☐ State and/or Local Government Taxable and/or Tax-Exempt Debt
- ☐ Registered Investment Companies (Money Market Mutual Funds)
- ☐ Investment Agreements
- ☐ Mortgage-Backed Securities (MBS)
- ☐ Asset-Backed Securities (ABS)
- ☐ Bond Funds
- ☐ Other Fixed Term Investments

Does your firm specialize in any of the above instruments? If so, please specify:

Has your firm or any of your employees ever been investigated by a regulatory or state agency for alleged improper, fraudulent, disreputable, or unfair business practices in the sale of securities or money market instruments? If yes, please explain:

Do you have full SIPC (Securities Investor Protection Corporation) insurance coverage?

- ☐ Yes
- ☐ No

SIPC policy number:

Does the firm have primary dealer status with the Federal Reserve Bank of New York?

- ☐ Yes
- ☐ No

How long has the firm had primary dealer status?

How long has your firm been in business?

Are you a subsidiary of another firm?

If yes, which firm?

How long have the two firms been associated?

Does your firm comply with the SEC (Securities Exchange Commission) net capital guidelines on a continuous basis?

- ☐ Yes
- ☐ No

How much excess capital do you maintain?

Has your firm ever been temporarily closed or prohibited from trading due to net capital inadequacy?

- ☐ Yes
- ☐ No

If yes, please explain:

Have any employees trading with or quoting securities to City of Lincoln undergone any disciplinary action, fines, suspension, or revocation of licenses within the last five years?

- ☐ Yes
- ☐ No

Have any of the firm's public sector clients ever sustained a loss on a securities transaction arising from a misunderstanding of misrepresentation of the risk characteristics of the instrument in the last five years?

- ☐ Yes
- ☐ No

If yes, please explain:

Through which firm do you clear?

Do you clear on a fully disclosed basis, i.e., will the clearing firm be acting as principal on the transaction?

Please attach a separate sheet with your full delivery instructions.

What training/informational materials can you provide to City employees? (i.e. market updates)

For applicants who are not currently working with the City of Lincoln, please provide references from at least three comparable public sector clients. We would prefer public sector clients located in the State of Nebraska, if possible.

Client Name:

Address:

Length of relationship:
Contact:
Phone:
Email Address:

Client Name:

Address:

Length of relationship:
Contact:
Phone:
Email Address:

Client Name:

Address:

Length of relationship:
Contact:
Phone:
Email Address:

Please return to:

Tammy Wissing, City Treasurer
City of Lincoln, Nebraska
555 So. 10th "St., Suite 103
Lincoln, NE 68508
twissing@lincoln.ne.gov

CHECKLIST

- ☐ Most recent audited financial statement
- ☐ Proof of Financial Industry Regulatory Authority (FINRA) certification
- ☐ Completed Broker-Dealer Questionnaire
- ☐ References – if new Broker/Dealer to the City of Lincoln
- ☐ Resumes of all personnel who will be trading
- ☐ Proof of registration to sell securities in Nebraska
- ☐ Written instrument substantially to the effect that IPS has been reviewed and reasonable procedures and controls have been put in place.

Qualified Representative

Signature:

Printed Name & Title

Date: