



**INVESTMENT POLICY  
MUNICIPAL CEMETERY SYSTEM  
PERPETUAL CARE TRUST FUND  
REVISION EFFECTIVE - FEBRUARY 21, 2023**

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# **Investment Policy Statement (IPS) for City of Fort Lauderdale Cemetery Trust Fund**

## **I. PURPOSE**

The purpose of this Investment Policy Statement (IPS) is to establish cash management and investment guidelines for the City of Fort Lauderdale Cemetery Perpetual Trust Fund.

## **II. SCOPE**

The City Cemetery System Rules and Regulations (Regulations) established a Perpetual Care Trust to provide for the on-going care of all plots, crypts, niches, markers and memorials sold and installed in the Cemetery System. The same Regulations designate the Cemetery System Board of Trustees (Board) as trustor of the Perpetual Care Trust Fund (Trust Fund).

The Board has adopted these guidelines for the investment of the Trust Fund to be administered in accordance with applicable Florida State Statutes and City Ordinances. To that end, this policy is intended to set forth the procedures, investment objectives and parameters for the management of the Trust Fund in a manner designed to fulfill the requirements of the Board's fiduciary responsibilities.

In accordance with the Regulations, a trustee to manage the Trust Fund (Managing Trustee) has been recommended to and approved by the City Commission. The Managing Trustee is, and future Managing Trustees must be, a bank or other investment counselor licensed by the state to handle the investment of fiduciary funds.

## **III. DELEGATION OF AUTHORITY**

Section 10-46(a) of the Code of Ordinances of the City of Fort Lauderdale, Florida provides that the Cemetery System Board of Trustees shall be the trustor of and shall recommend to the City Commission a trustee to manage the Perpetual Care Trust Fund. The managing trustee shall be a bank or other investment counselor licensed by the State to handle the investment of fiduciary funds.

## **IV. INVESTMENT PHILOSOPHY & OBJECTIVES**

### **Balanced Objective**

The foremost objective of this investment program is the safety and preservation of the corpus of the fund. Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve the corpus of the

fund, understanding that losses may occur in individual securities and in any one particular year.

The definition of Balanced objective is as follows: This Balanced approach is designed to offer the potential for capital appreciation and current income through a 45% to 65% allocation to equities (long term target of 55%) and 35% to 55% allocation to fixed-income securities (long term target 45%).

The City's goal is to achieve an equal balance between maintaining purchasing power through principal appreciation of the trust fund and generating income to support its expenditures. All management fees are charged to income as they are incurred.

#### Maintenance of Liquidity

The Board determines eligible re-imbursement payments to the City on a bi-monthly basis. Since reimbursements are limited to the dividend and interest income of the Trust Fund, the Managing Trustee is able to determine the maximum liquidity position required to meet the bi-monthly (every two months) reimbursement requirements. It is the responsibility of the City to provide the Managing Trustee with any extraordinary disbursement projections in sufficient time to meet liquidity needs. The portfolios shall be managed by the Managing Trustee with the understanding that funds are to be available to meet reasonably anticipated cash flow requirements in an orderly manner.

The Regulations explicitly mandate that only the income generated by the Trust Fund can be expended. Deposits into the Trust Fund from Cemetery System sales make up the Corpus of the Trust Fund and no part of the Corpus can be expended. Accumulated earnings for all years, which include gains and losses, are not considered to be part of the corpus and may be used for expenditures as described in Section 10-47 of the Code of Ordinances of the City of Fort Lauderdale, provided that such expenditures have been approved by the Board and City Commission, as necessary.

#### Investment Income

Through a diversification of investments across various asset classes detailed in Section VIII, the investment income goals are two-fold:

- 1) Capital Appreciation of the Trust Fund which is essential to meeting future financial responsibilities.
- 2) Maximizing dividend and interest income, which is primarily used to reimburse the City (see Maintenance of Liquidity above), in order to maintain the cemeteries in top condition and promote a sound business relationship with the public.

## **V. PERFORMANCE MEASUREMENTS**

- A. The Measures of Investment Performance of investment returns on the various asset categories are as follows:

1. The Trust Funds' fixed income portfolio will be compared to the weighted average return of the Bloomberg Barclay's Aggregate Bond Index.
  2. The Trust Funds' domestic equity portfolio will be compared to the weighted average return of the Standard & Poor's 500 Index (S&P 500).
  3. Except for emerging markets, the Trust Funds' international portfolio will be compared to the weighted average return of the Morgan Stanley Europe, Australia, & Far East (EAFE) Index.
  4. The Trust Funds' emerging markets portfolio will be compared to the weighted average return of the MSCI Index for Emerging Markets.
- B. On a quarterly basis, the Board shall evaluate the current and historical performance of the Trust Fund to determine:
1. If the Managing Trustee has performed according to these Policy guidelines; and
  2. How the Managing Trustee has performed in relation to the Measures of Investment Performance for their asset class.

## **VI. PRUDENCE AND ETHICAL STANDARDS: Pursuant to Florida Probate Statute 518.11**

- A. The Board will adhere to the standard of a Prudent Investor within the context of the overall management of the Cemetery Trust Fund investment program.
- B. Any person or firm, such as the Managing Trustee, retained concerning the investment, monitoring, or advisement of Trust Fund assets will be held to the highest standard of Prudent Investor. Such person or firm will 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.

## **VII. AUTHORIZED INVESTMENTS**

- A. Trust Fund placed with the Managing Trustee is to be invested only in those authorized classes of investment as contained in this Policy. Investments should be made subject to Trust Fund cash flow needs and such cash flows are subject to revision due to changes in Trust Fund needs and market conditions.
- B. The authorized classes of investments for the Trust Fund are as follows:
  1. Bonds, securities, and certificates of indebtedness of the United States government;

2. Obligations guaranteed as to principal and interest by the United States government;
3. Obligations guaranteed as to principal and interest by government sponsored agencies of the United States government;
4. The Florida Local Government Surplus Funds Trust Fund (SBA);
5. Commercial Paper rated A-1 or P-1 by a nationally recognized rating service. If the Commercial Paper is backed by a Letter of Credit (LOC), the long-term debt of the LOC provider must be rated A or better by at least two nationally recognized rating services;
6. Bankers Acceptances of United States banks or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, rated A-1 or P-1 by a nationally recognized rating service;
7. Corporate bonds or notes (other than high yield bond funds authorized in 14 below), registered or unregistered under Rule 144A, issued by firms organized and operating within the United States or by depository institutions licensed by the United States rated A or better by a nationally recognized rating service at the time of purchase. (Rule 144A bonds or notes must include rights of registration. Any bond or note that falls below investment quality must be eliminated expeditiously unless the Board is notified for the reason or rational to be held);
8. General Obligation and/or Revenue Bonds of state or local government taxable or tax-exempt debt rated A or higher, for long term debt, by a nationally recognized rating service or rated at least MIG-2 or SP-2, for short term debt, by a nationally recognized rating service;
9. Intergovernmental investment pools authorized pursuant to the Florida Inter-local Cooperation Act, provided in Section 163.01, Florida Statutes.
10. Common and preferred stocks from domestic and foreign corporations;
11. Mutual Funds and co-mingled Trust Funds, including real estate investment trusts (REITs), providing the underlying investments meet the minimum quality standards of trust investments;
12. Repurchase agreements composed of only those investments authorized in numbers 1, 2, and 3 (above) (All firms are required to sign the Trust Funds' Master Repurchase Agreement prior to the execution of a repurchase agreement transaction); and
13. High Yield Bond Mutual Funds not to exceed 5% of the total portfolio value of the Trust Fund.

## **VIII. MATURITY AND LIQUIDATION REQUIREMENTS**

- A. The maximum maturity of Trust Fund investments will be as follows:
  - 1. For certificates of deposit, 1 year or less from the date of purchase.
  - 2. For commercial paper, 180 days or less from the date of purchase.
  - 3. For banker's acceptances, 180 days or less from the date of purchase.
  - 4. For money market funds, 120 days or less from the date of purchase.
  - 5. For repurchase agreements, 90 days or less from the date of purchase.
- B. To the extent possible, every attempt should be made to match investment maturities with known cash needs and anticipated cash-flow requirements.

## **IX. PORTFOLIO COMPOSITION**

- A. The Managing Trustee will adhere to the following specific guidelines for the investment of Trust Fund assets:
  - 1. A maximum of 65% of the Trust Fund is to be invested in equity securities; the long-term targeted range is 55%.
  - 2. A minimum of 35% of the Trust Fund is to be invested in fixed income securities; the long-term targeted range is 45%.
  - 3. A maximum of 25% and a minimum of 0% of the Trust Fund are to be invested in cash equivalents.
  - 4. A maximum of 5% of the Trust Fund may be invested in High Yield Bond Mutual Funds.
- B. The Board will consider changes to the investment category ranges based on changes in contractual obligations of the Cemetery System, market environment or other conditions making such consideration appropriate toward administering this investment policy.

## **X. RISK AND DIVERSIFICATION**

- A. The Board has adopted a strategy, described in Sections V, VI and VII, whereby the Trust Fund portfolio will be diversified to the extent practicable to control the risk of

loss which might result from an over-concentration of investments in a specific security, maturity, issuer, dealer, or bank through which financial instruments are bought or sold.

B. In a further effort to control the risk of loss and assure adequate diversification, the following limitations are imposed upon the investment of Trust Funds:

1. A maximum of 5% investment in the outstanding common stock of any one company or organization;
2. A maximum of 5% investment in the outstanding debt issuance of any one company or organization except for U.S. Government Securities or Agencies; and
3. In International equities, a maximum of 20% of the total international portfolio investment in any foreign country.
4. A maximum of 25% investment in any one mutual fund.

#### **XI. THIRD-PARTY CUSTODIAL AGREEMENTS**

All securities will be held with the Custodial Bank (Bank) under a contractual agreement with the Board. All securities purchased by and all collateral obtained by the Investment Manager or the Board is designated as assets of the Trust Fund. No withdrawal of securities, or transfer of funds, in whole or in part, can be made from safekeeping except by authorization of the Board. Securities transactions between a broker-dealer and the Bank involving 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 Bank will have the security or money, as appropriate, in hand at the conclusion of the transaction.

#### **XII. MASTER REPURCHASE AGREEMENT**

All approved institutions and dealers transacting repurchase agreements shall execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.

#### **XIII. BID REQUIREMENTS**

The Managing Trustee shall obtain competitive bids and offers on investment transactions to the fullest extent possible.

#### **XIV. INTERNAL CONTROLS**



- A. The Director of Finance shall establish a system of internal controls and written operational procedures to be a part of the operational procedures of the Trust Fund. 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 record keeping, wire transfer agreements, banking service contracts, collateral/depository agreements, and “delivery vs. payment” procedures. No person may engage in an investment transaction except as authorized under the terms of this policy.
- B. Independent auditors, as a normal part of their annual financial audits, may conduct a review of the system of internal controls to ensure compliance with policies and procedures.

## **XV. CONTINUING EDUCATION**

Any designated City officials responsible for making investment decisions related to this policy have the responsibility for completing 8 hours of continuing education annually in subjects or courses related to investment practices and products.

## **XVI. REPORTING**

The Managing Trustee shall provide periodic reports, which are to include securities in the portfolio by class or type, book value, income earned, and market value as of the report date. Such reports shall be made available for submission to the City Commission, the Board and shall be available to the public.

## **XVIII. EXHIBITS**

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## CEMETERY TRUST FUND PORTFOLIO GUIDELINES

Asset Class	Target	Range	Benchmark	Morningstar Peer Group
<b>TOTAL EQUITY</b>	<b>55%</b>	<b>45-65%</b>		
<b>DOMESTIC</b>	<b>45%</b>	<b>25-65%</b>		
Large Cap	35%	20-60%	S&P 500 & Dow Jones Select Dividend	Large-Cap Blend Equity
Mid Cap	5%	0-10%	Russell Mid Cap	Mid-Cap Equity
Small Cap	5%	0-10%	Russell 2000	Small-Cap Equity
US REITs	0%	0-10%	NAREIT Equity	Real Estate
<b>INTERNATIONAL</b>	<b>10%</b>	<b>0-25%</b>		
Developed	8%	0-25%	MSCI EAFE	Foreign Large Blend
Emerging	2%	0-10%	MSCI Emerging Markets	Diversified Emerging Markets
<b>FIXED INCOME</b>	<b>45%</b>	<b>35-55%</b>		
Core Investment Grade	43%	35-55%	Barclays Aggregate	Intermediate-Term Bond
High Yield	2%	0-10%	Barclays US Corporate High Yield	High Yield Bond
International Developed	0%	0-10%	JPM GBI Global Bond (hedged)	World Bond
International Emerging	0%	0-10%	JPM GBI - EM Global Diversified (un-hedged)	Emerging Markets Bond
<b>ALTERNATIVES</b>	<b>0%</b>	<b>0-10%</b>		
Commodities	0%	0-10%	DJ UBS Commodity Index	Commodities
<b>CASH</b>	<b>0%</b>	<b>0-25%</b>		

**Policy Benchmark** – the policy benchmark is a passive blended benchmark of:  
45% S&P 500  
10% MSCI All Country World Index (ACWI) Ex US  
45% Barclays US Aggregate

## **INVESTMENT POLICY ADOPTION**

The investment policy shall be adopted by Resolution. The Director of Finance will review the policy annually for modifications and make recommendations to the City Manager. The City Commission shall approve any necessary modifications.

**APPROVED    AND    ADOPTED    BY    RESOLUTION    NO.**\_\_\_\_\_.

## Glossary of Terms

**Accrued Income:** Income earned but not yet paid.

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

**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.

**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.

**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 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."

**Callable:** Redeemable by the issuer before the scheduled maturity date.

**Common Trust Fund:** A fund maintained by a bank or trust company exclusively for the collective investment of money contributed to the fund by customers of its trust department.

**Cost Basis:** The original cost of an asset.

**Coupon:** The interest rate, expressed as a percentage of the face amount, that the issuer of a bond will pay to the bondholder.

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

**Cusip number:** An alpha-numeric code used in the securities industry to identify specific issues of securities. SunTrust also uses this field to identify other kinds of assets which are not recognized by the securities industry.

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

**Dealer.** A dealer acts as a principal in all transactions, buying and selling for his own account.

**Delivery vs. 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 Depository Trust Company (DTC), are done DVP as a protection for both the buyer and seller of securities.

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

**Diversification.** A method of reducing risk by investing in a variety of assets.

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

**Ex-date (ex-dividend date):** Literally "without dividend," or the date on which a stock trades without the value of the dividend being contemplated in the price.

**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 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 in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven-member Board of Governors known as the "Federal Reserve Board" and headed by its Chairman.

**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.

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

**Internal Controls.** An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1. the cost of a control should not exceed the benefits likely to be derived and 2. the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

1. **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. **Separation of transaction authority from accounting and record keeping** - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

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

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

**Investment Manager.** A company that actively manages fixed income portfolios which include operating funds, capital reserves, insurance reserves, proceeds from the sale of bonds and other funds.

**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.

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

**Market Value.** The fair market value of a security or commodity. The price at which a willing buyer 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.

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

**Money Market Mutual Fund (MMF).** A type of mutual fund that invests solely in money market instruments, such as 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. MMFs 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.

**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).

**Net Asset Value.** The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.)

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

**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.

**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:** The face amount of a bond.

**Pending Trade:** A trade that has been placed but not yet settled (see settlement date").

**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."

**Pre-refunded:** A bond for which the issuer has raised the funds necessary to call the bond by issuing another bond that generally pays a lower coupon.

**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.

**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 actual sold, as compared to "unrealized" gains/losses which are based on current market value. See "Unrealized Gains (Losses)."

**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.

**Settlement Date:** The date by which the property must be delivered, and cash must be paid for an asset traded.

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

**Symbol:** The alpha-numeric code used to identify the asset within various pricing services.

**Tax cost basis:** The original cost of an investment, adjusted for any activity that is incorporated into the calculation of capital gain or loss.



**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.

**Trade date:** The date an asset is traded for later settlement.

**Trade date accounting:** Uses the trade date as the date upon which to include an asset or cash from a sale in the calculation of market value.

**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, Treasury Inflation- Protected Securities (TIPS) 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, or T-bills, are sold in terms ranging from a few days to 52 weeks. Bills are typically sold at a discount from the par amount (also called face value). For instance, you might pay \$990 for a \$1,000 bill. When the bill matures, you would be paid \$1,000. The difference between the purchase price and face value is interest. It is possible for a bill auction to result in a price equal to par, which means that Treasury will issue and redeem the securities at par value.

**Treasury Bonds.** Long-term interest-bearing debt securities backed by the U.S. Government. Issued Treasury bonds pay a fixed rate of interest every six months until they mature and are issued in a term of 30 years.

**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. Treasury Notes earn a fixed rate of interest every six months until maturity. Notes are issued in terms of 2, 3, 5, 7, and 10 years.

**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.

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

**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 at Market.** The percentage return on an investor's money in terms of current prices calculated by dividing the annual income produced by the investment by its current market value.

**Yield to Maturity.** The rate of return the investor earns from payments of principal and interest, with interest compounded semi-annually and assuming the bond will be held until maturity (this maturity date is changed and, therefore, the calculation changes when a bond is declared to be "pre-funded").

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