INVESTMENT POLICY
TREASURY/TRUST PORTFOLIO

OFFICE OF THE WASHINGTON STATE TREASURER

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WASHINGTON STATE TREASURER

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I. PURPOSE

The goal of this investment policy is to clearly prescribe the State Treasurer's Office duties pertaining to the investment of public funds. This policy:

- Sets out guidelines for the prudent management of state funds;
- Describes realistic parameters and goals for safely investing those public funds;
- Establishes expectations for generally acceptable returns at a suitable level of risk that matches the nature of the state funds invested; and
- Provides the framework within which the Treasurer's Office investment activity will operate by setting out objectives, guidelines and structure that includes details on the universe of permitted investments and any restrictions on their use.

The State Treasurer reserves the right to amend this policy as deemed necessary.

II. IDENTIFICATION OF FUNDS

This policy applies to the investment of all Treasury and Trust Funds managed by the State Treasurer, except for:

- the Local Government Investment Pool (governed by separate statute (RCW 43.250) and policy);
- the Time Certificate of Deposit and Linked Deposit programs (governed by separate statute (RCW 43.86A)); and
- funds held by the Department of Labor and Industries as trustee for the U.S. Department of Energy (governed by agreement between the Department of Labor and Industries and the U.S. Department of Energy).

III. OBJECTIVES

All Treasury and Trust funds (as identified above) will be invested in conformance with federal, state and other legal requirements. The primary objectives of the portfolio shall be safety and liquidity, with return on investment a secondary objective:

1. **Safety**: Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. This objective will be achieved by diversified investing in highly rated securities and by investing among a variety of securities and financial institutions offering independent returns.

2. **Liquidity**: Because the investment portfolio must remain liquid to enable the State Treasurer to meet all cash requirements that can reasonably be anticipated, investments will be managed to maintain cash balances needed to meet daily obligations.

3. **Return on Investment:** After assuring needed levels of safety and liquidity, the investment portfolio will be structured to attain a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

   The fundamental strategy of the State Treasurer's investment policy is to construct, from the investments available under section V below, investment portfolios that are optimal or efficient. An optimal or efficient portfolio is one that provides the greatest expected return for a given expected level of risk, or the lowest expected risk for a given expected return. The emphasis on "expected" is to recognize that investment decisions are made under conditions of risk and uncertainty. Neither the actual risk nor return of any investment decision is known with certainty at the time the decision is made.

   A key tenet of modern portfolio theory is that there is a relationship between the risk of an asset and its expected rate of return. Under the theory, investment earnings in excess of the risk free rate, defined herein as the overnight repurchase rate for U.S. Treasury collateral, are obtainable only by the assumption of risk of some sort. The theory thus makes two of the traditional objectives of treasury investment—safety and return—mutually exclusive, at least to the extent a return greater than the overnight rate for Treasury collateral is desired.

   Setting investment strategy using modern portfolio theory therefore involves specifying the level of expected risk that may be assumed and leaving the return variable, or specifying the target expected return and leaving the level of risk variable, or some combination of the two.

   The Treasury/Trust's investments are separated into two main portfolios, in order to efficiently manage the liquidity needs of the state while at the same time providing the portfolio managers meaningful performance benchmarks that allow them to more effectively manage their portfolios. The Deputy Treasurer of Investments shall be responsible for determining the allocation of assets among the portfolios. The characteristics and performance benchmarks of each portfolio are as follows:

   1. ***The STIF Portfolio***. The purposes of this portfolio are to meet the liquidity needs of the Treasury/Trust, and to manage the cash positions of the intermediate and core portfolios. All daily cash requirements are to be met by assets in this portfolio. It has an expected risk objective of zero liquidity risk, which is quantified by maintaining a dollar price of $1.00 in the same sense that a Rule 2a-7 money market fund does. Consistent with that risk objective, the benchmark for the portfolio is the net yield of the iMoney.net, Government Only Institutional Index.

2. ***The Flexible Core Portfolio.*** The flexible core portfolio is an enhanced short duration portfolio that is the first recourse in the event of unforeseen cash needs that cannot be met with the STIF Portfolio. It is expected to provide a higher return than the STIF portfolio over a market cycle while investing primarily in shorter duration liquid securities relative to the core portfolio. The maximum maturity of the flexible core portfolio is 5.5 years, with a maximum modified duration no greater than 3.0 years. The benchmark for the portfolio shall be the total return of a blended portfolio consisting of the Bloomberg Barclays US Treasury 1-3 Year Index (75%) and the Bloomberg Barclays Agency 1-3 Year (25%). The flexible core portfolio has an approximate duration of 1.90 but may be expected to maintain a higher or lower duration for periods of time due to its flexible nature.

3. ***The Core Portfolio***. The core portfolio is comprised of cash that is not reasonably expected to be necessary to meet the short- or intermediate-term liquidity needs of the Treasury/Trust. Accordingly, this cash may be invested further out the yield curve where, over a market cycle, it is expected to provide a higher return than the STIF portfolio. The benchmark of the core portfolio is the total return of a blended portfolio consisting of the Merrill Lynch 0-1 Year Treasury Index (20%); the Merrill Lynch 1-3 Year Treasury/Agency Index (50%); and the Merrill Lynch 3-5 Year Treasury/Agency Index (30%). This blended portfolio has an approximate duration of 2.1 years. The core portfolio may have a maximum modified duration of no longer than 3.5 years.

   A portion of the core portfolio may be allocated to higher yielding, high-grade corporate securities managed in a separate sub-portfolio that shall have a similar duration to the main core portfolio. The investments in the corporate sub-portfolio shall be governed by the investment policies and procedures adopted by the State Investment Board (RCW 43.84.080(7)) as well as this policy. The corporate sub-portfolio shall have a separate benchmark that reflects the credit spread associated with corporate fixed income investments. The benchmark of the corporate portfolio shall be the total return of a blended portfolio consisting of the Merrill Lynch 0-1 Year AAA-A US Corporate Index (20%), the Merrill Lynch 1-3 Year AAA-A US Corporate Index (50%) and the Merrill Lynch 3-5 Year AAA-A US Corporate Index (30%).

IV. STANDARDS OF CARE

1. Delegation of Authority

The State Treasurer is an executive officer of the state established by the Constitution of the State of Washington (Article III, Section 1), and "will perform such duties as will be prescribed by law" (Article III, Section 19).

As prescribed by the Revised Code of Washington, "Whenever there is in any fund or in cash balances in the state treasury more than sufficient to meet the current expenditures properly payable there from, the state treasurer may invest or reinvest such portion of such funds or balances as the State Treasurer deems expedient." (RCW 43.84.080)

To "ensure effective cash management of public funds" (RCW 43.08.015), the State Treasurer may designate investment officers who will have the authority to perform the duties of the State Treasurer, and will maintain a current list (available upon request) of those individuals so authorized.

2. Prudence

The State Treasurer's Office authorized investment officers shall perform their investment duties in a manner consistent with this policy and the standard of a prudent investor, in light of the purposes, terms, requirements and other circumstances then prevailing as to the assets entrusted to them.

In investing, they shall exercise reasonable care, skill, diligence, and prudence, considering investments not in isolation, but in the context of the portfolio as a whole and of an overall investment strategy. That strategy should incorporate the risk and return objectives set forth in this policy. The objective of safety will be measured in cash rather than accounting terms, where different, and in terms of the portfolio as a whole, as opposed to the terms of any individual transaction. This means, for example, that a single transaction that generated an accounting loss but actually increased the amount of cash received in the portfolio would be considered to have increased capital, and not decreased it.

They shall act with undivided loyalty and impartiality; incur only costs which are reasonable in amount and which are appropriate to their investment responsibilities; and they shall seek to minimize costs whenever they deem it prudent to do so.

Authorized investment officers acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for credit and market risks encountered in the performance of their investment duties. Due diligence requires timely reporting of material deviation from expectations and such other actions to control adverse developments as may be possible in consideration of the particular circumstances and within other provisions of this policy.

Given the legal list of authorized investments and other restrictions contained in this policy, they shall be deemed to have met any requirement for diversification so long as they are in compliance with this policy.

In the case of investments made in accordance with statute for objectives other than those specified in Section 3 above, such as in the case of the Linked Deposit Program (RCW 43.86A.060) or as otherwise provided in statute, this policy and its standard of care are restricted to the express provisions of the statutes directing such investments.

3. Ethics and Conflicts of Interest*.*

The State Treasurer, assistant treasurer, and authorized investment officers will conduct themselves in conformance with:

- Public Disclosure Act, RCW 42.16;
- Ethics in Public Service Act, RCW 42.52 and section 292-110-010 Washington Administrative Code; and,
- Standards of Conduct for Executive Branch Employees, Executive Order 93-02.

V. CONTROLS

1. Custody

Safekeeping and Custody of Securities. Prudent treasury management dictates that all purchased securities be bought on a delivery versus payment (DVP) basis and be held in safekeeping by an independent third-party financial institution. Deposits will only be made pursuant to RCW Chapter 39.58.

The State Treasurer's Office shall designate all safekeeping arrangements and an agreement of the terms executed in writing. The third-party custodian shall be required to provide a statement to the State Treasurer Office listing at a minimum each specific security, description, maturity date, market value, par value, purchase date, and cusip number.

2. Authorized Financial Dealers and Institutions.

The State Treasurer's Office will maintain a list of broker/dealers and financial institutions authorized to provide investment services to the state. Authorized broker/dealers and financial institutions will be limited to those that meet one or more of the following:

- financial institutions that are
    - approved by the Washington Public Deposit Protection Commission (RCW 39.58); or,
    - the custody provider for the state pursuant to RCW 39.58.080; or,
- primary dealers recognized by the Federal Reserve Bank of New York; or,
- non-primary dealers qualified under U.S. Securities and Exchange Commission Rule 15C3-1, the Uniform Net Capital Rule, and a certified member of the Financial Industry Regulatory Authority (FINRA).

Each authorized dealer or institution will make available annual reports, including audited financial statements, and other information as determined by the State Treasurer's Office.

3. Competitive Transactions

It is the policy of the State Treasurer's Office to transact securities purchases or sales through appropriately competitive processes. Electronic trading is the preferred option for the purchase and sale of investment instruments. Offers or bids for securities may be received from approved broker/dealers by the following means:

a. by phone
b. by e-mail or other electronic communication
c. through electronic trading platform
d. from inventory listings supplied by approved broker/dealers.

4. Internal Controls

The State Treasurer's Office will maintain internal controls to protect against the loss of public funds arising from negligence, theft, or misuse that include, but are not limited to:

- use of a third party custody and safekeeping;

- execution of all securities transactions on a DVP basis;
- clear delegation of investment authority;
- separation of transaction authority from record keeping;
- use of objective criteria in selecting financial institutions and dealers authorized to provide investment services to the state; and
- use of objective criteria in awarding investment purchases and sales to authorized financial institutions and dealers.

The deputy treasurer for investments and authorized investment officers will regularly review this policy and will recommend changes to the assistant treasurer and state treasurer if needed.

Daily compliance reports, as well as monthly performance reports, will be provided to the treasurer and assistant treasurer.

5. External Controls

As prescribed by RCW 43.09.050, the state auditor will “audit the accounts” and “inspect the books” of the State Treasurer to determine the compliance of investment activities with state statutes and this policy.

The market value of the portfolio will be calculated monthly by the master custodian or by an independent pricing service under contract with the State Treasurer’s Office.

This policy will be reviewed at least annually and the State Treasurer will formally approve changes to this policy if needed.

VI. ELIGIBLE AND SUITABLE INVESTMENTS

1. Eligible Investments

Eligible investments are only those securities and deposits authorized by statute (RCW 39.58, 43.84.080 and 43.250). OST has deemed itself both an Accredited Investor and Qualified Institutional Buyer. As such, Eligible Investments may include securities exempt from the registration requirements of the Securities Act of 1933.
The following are eligible investments:

- obligations of the U.S. government;
- obligations of U.S. government agencies, or of corporations wholly owned by the U.S. government;
- U.S. dollar denominated obligations of supranational institutions, provided that at the time of investment the institution has the United States government as its largest shareholder;
- obligations of government sponsored enterprises which are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve System;

- commercial paper, provided that the State Treasurer adheres with policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(5));
- corporate notes, provided that the State Treasurer adheres to the investment policies and procedures adopted by the State Investment Board (RCW 43.84.080(7));
- investment deposits with financial institutions qualified by the Washington Public Deposit Protection Commission (RCW 39.58.010(9)) and deposits made pursuant to RCW 39.58.080;
- Local Government Investment Pool; and
- obligations of the state of Washington or its political sub-divisions.

2. Repurchase and Reverse Repurchase Agreements

Repurchase and reverse repurchase agreements will be subject to the following additional restrictions:

- transactions will be conducted only with primary dealers, the state's bank of record, or master custodial bank, and under the terms of a written master repurchase agreements;
- purchased securities utilized in repurchase agreements will be limited to government securities;
- repurchase agreements with any single primary dealer or financial institution will not exceed 20% of the portfolio;
- the maximum term of repurchase agreements will be 180 days;
- the share of the portfolio allocated to repurchase agreements with maturities beyond 30 days will not exceed 30% of the total portfolio;
- the maximum term of reverse repurchase agreements will be 180 days and must be matched to anticipated cash flows adequate to liquidate the transaction; and,
- the maximum portion of the portfolio allocated to reverse repurchase agreements will not exceed 30% of the total portfolio.

Securities accepted for repurchase agreements will be subject to the following additional restrictions:

- Securities utilized in a repurchase agreement with a maturity date longer than seven days will be priced at least weekly;
- all substitutions will be approved by the Office of the State Treasurer (OST) before the existing purchased security is released to the broker/dealer;
- the market value, plus accrued income, of securities utilized in repurchase agreements will be priced at 102% of the value of the repurchase agreement, plus accrued income.

Additional operating guidelines will provide details relating to the frequency of security pricing, substitutions, and margin calls.

VII. INVESTMENT PARAMETERS

To provide for the safety and liquidity of funds, the investment portfolio will be subject to the restrictions listed below. These represent minimum investment restrictions under this formal investment policy and there may be separate guidelines containing additional, more restrictive limitations for certain investment instruments. All restrictions are based on a settlement date basis. The investments of cash collateral and securities accepted as collateral by a securities lending agent are subject to the restrictions and limits of sections VI and VII of this policy.

Maximum percentages for a particular issuer, investment type or liquidity constraints may on occasion be exceeded, e.g., due to fluctuations in fund balances. Securities need not be liquidated to realign the portfolio; however, consideration will be given to this matter when future purchases are made

1. Non-government Securities and Deposits

Investments in non-government securities, excluding securities utilized in repurchase agreements, will not exceed the following percentages of the total daily portfolio size:

Commercial Paper and Corporate Notes	25%
Certificates of Deposit*	10%

* Not including Certificates of Deposit purchased in accordance with RCW 43.86A.030.

Issuer limits for commercial paper and corporate notes are set forth in policy 2.05.500 adopted by the State Investment Board.

2. Investment Maturity

- ***The STIF portfolio***.
  - Maximum single maturity 397 days, with the following exceptions:
    - The maximum maturity of the variable rate and floating rate securities will not exceed 762 days.
    - Securities utilized in repurchase agreements
  - Maximum weighted average maturity 60 Days

- ***The core portfolio***.
  - Maximum single maturity 10 years
  - Maximum modified duration not longer than 3.5 years.

3. Prohibited Investments

To provide for the safety and liquidity of Treasury and Trust Funds, the investment portfolio will be subject to the following restrictions:

- purchase of collateralized mortgage obligations (CMO) is not allowed; and
- allocation to investments subject to high price sensitivity or reduced marketability will not exceed 15% of the daily balance of the portfolio. For the purposes of this policy investments subject to high price sensitivity or reduced marketability will be defined as

structured notes, with the exception of generic callable securities, and floating rate notes which may be reasonably expected to reset at or near par on their reset dates. A structured note is a debt security whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend on one or more indices and which may have embedded forwards or options. Structured notes whose cash flows can no longer fluctuate would not count against the 15% allocation.

VIII. PROFESSIONAL SERVICES

The State Treasurer's Office may contract for professional services as necessary for the efficient management of investments.

1. Appointment of Master Custodian

The State Treasurer's Office may select one or more firms to provide the state with master custodial services. Master custodial services will include, but not be limited to:

- executing transactions involving all securities held in custody, including on-line security clearing, settlement of securities on a delivery-versus-payment basis (DVP), and settlement of physically-held securities;
- providing regular reports on the activity and value of the securities in custody; and
- providing for the safekeeping of all documents and financial instruments physically held in custody.

2. Appointment of Securities Lending Agent

The State Treasurer's Office may select one or more firms to provide securities lending management services. Securities lending services will include, but not be limited to:

- ensuring all loans of coupon-bearing securities are supported by collateral valued at not less than 102% of market value of the securities, including accrued income;
- ensuring all loans of non coupon-bearing securities supported by cash collateral, shall not be valued at less than 102% of market value, but not to exceed par;
- ensuring all loans of non coupon-bearing securities supported by non-cash collateral, shall not be valued at less than 102% of market value;
- ensuring the average maturity of securities on loan and of the securities purchased are for 14 days or less;
- ensuring that the investment of cash collateral be only in securities authorized in this policy, and that the restrictions on investments found in sections V and VI of this policy also apply to investments made by a securities lending agent;
- providing next day liquidity for all securities on loan; and,
- providing monthly accounting, performance, compliance, and management reports.

The services of a master custodian and securities lending agent will be obtained through an evaluation of competitive proposals submitted in response to a regularly issued request for proposals.

IX. Reporting

The State Treasurer's Office will prepare regular reports summarizing investment activity of the portfolio. The reports also will include: securities holdings, cash balances, and market values in the investment portfolio.

1. Specific Requirements

Book Yield
Holdings Report including mark to market and security description
Transactions Report
Weighted Average Maturity or Duration

2. Performance Standards

The investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account investment risk constraints and cash flow needs.

The earnings benchmark will be a market benchmark that appropriately models the risk and return of the portfolios.

Michael Pellicciotti

_________________________________ 3/29/2021
Approved by Mike Pellicciotti, State Treasurer Date

Effective Date: March 29, 2021

APPENDIX: GLOSSARY

Accredited Investor and Qualified Institutional Buyer - Broadly, these are institutional and individual investors that the Securities and Exchange Commission has identified as having sufficient knowledge and expertise to participate in investment opportunities that do not have the rigorous disclosure and procedural requirements, and related investor protections, provided by registration under the Securities Act of 1933 (Securities Act). The formal definitions can be found in Securities Act Rules 215 and 501(a) for Accredited Investor and Rule 144A for Qualified Institutional Buyer.

ASSET - Available property, as for payment of debts

BENCHMARK – A standard against which the performance of a security, fund or investment manager can be measured. Generally, broad market and market-segment indexes are used for this purpose.

BID - The indicated price at which a buyer is willing to purchase a security or commodity. When selling a security a bid is obtained. (See Offer)

CALLABLE SECURITY – A security with an embedded call provision that allows the issuer to repurchase or redeem the security by a specified date. Since the holder of a callable security is exposed to the risk of the security being repurchased, the callable security is generally less expensive than comparable securities that do not have a call provision.

CERTIFICATES OF DEPOSIT (CDs) - Certificates issued against funds deposited in a bank for a definite period of time and earning a specified rate of return. Certificates of Deposit bear rates of interest in line with money market rates current at the time of issuance.

COLLATERAL - Property (as securities) pledged by a borrower to protect the interest of the lender.

COLLATERALIZED MORTGAGE OBLIGATION (CMO) – A type of mortgage-backed security in which principal repayments are organized according to their maturities and into different classes based on risk. A CMO is a special purposes entity that receives the mortgage repayments and owns the mortgages it receives cash flows from (called a pool). The mortgages serve as collateral.

COMMERCIAL PAPER – An unsecured, short-term debt instrument issued by a corporation. Maturities on commercial paper rarely range longer than 270 days.

CORPORATE NOTE – An unsecured debt instrument issued by a corporation. Corporate bonds are considered to have higher risk than Treasury notes and nearly always have higher yields.

CREDIT RISK - The risk that another party to an investment transaction will not fulfill its obligations. Credit risk can be associated with the issuer of a security, a financial institution holding the entity's deposit, or a third party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one investment type or with any one party.

CUSTODIAN - An independent third party (usually bank or trust company) that holds securities in safekeeping as an agent for the investor.

DELIVERY - The providing of a security in an acceptable form to the OST. Acceptable forms can be physical securities or the transfer of book entry securities. The important distinction is that the transfer accomplishes absolute ownership control by the OST.

DELIVERY VS PAYMENT - There are two methods of delivery of securities: Delivery vs. payment and delivery vs. receipt (also called free). Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT - The price of a bond that is lower than par. The discount equals the difference between the price paid for a security and the security's par value.

DIVERSIFICATION - Distribution of available funds among a variety of securities and institutions so as to minimize risk.

DURATION – A measure of the sensitivity of the price of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. The greater the duration, the greater the interest-rate risk or reward for bond prices.

FEDERAL RESERVE BANK OF NEW YORK - The Federal Reserve Bank that is responsible for the second district and is located in New York City. The Federal Reserve Bank of New York has developed the capacity to conduct reverse repurchase agreement transactions with an expanded set of counterparties.

FEDERAL RESERVE SYSTEM - The central bank of the United States which has regulated the US monetary and financial system since its inception in 1913. Composed of a central governmental agency (the Board of Governors) and twelve regional Federal Reserve Banks.

FLOATING RATE NOTE – A debt instrument with a variable interest rate tied to a benchmark such as the US Treasury bill rate, LIBOR, the fed funds or the prime rate. Floaters are mainly issued by financial institutions and governments, typically with one- to three-year maturities.

GOVERNMENT SPONSORED ENTERPRISE – A privately held corporation with public purposes created by the US Congress to reduce the cost of capital for certain borrowing sectors of the economy. GSEs carry the implicit backing of the US Government but are not direct obligations of the US Government. Examples of GSEs include: Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank and Federal National Mortgage Association. Securities issued by GSEs are known as agency securities.

LIQUIDITY - Refers to the ease and speed with which an asset can be converted into cash without a substantial loss in value.

LOSS - The excess of the cost or book value of an asset over selling price.

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

MARK-TO-MARKET - An adjustment in the valuation of a securities portfolio to reflect the current market values of the respective securities in the portfolio. This process is also used to ensure that margin accounts are in compliance with maintenance.

MARKET RISK - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value. The risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline.

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

MASTER REPURCHASE AGREEMENT - An agreement between the investor and the dealer or financial institution. This agreement defines the nature of the transactions, identifies the relationship between the parties, establishes normal practices regarding ownership and custody of the collateral securities during the term of the investment, provides for remedies in the event of a default by either party and otherwise clarifies issues of ownership.

MATURITY - The time when a security becomes due and at which time the principal and interest or final coupon payment is paid to the investor.

OFFER - The indicated price at which a seller is willing to sell a security or commodity. (See BID) When buying a security an offer is obtained.

PAR VALUE - The nominal or face value of a debt security; that is, the value at maturity.

PORTFOLIO - Collection of securities held by an investor.

PREMIUM - The amount by which a bond sells above its par value.

PRIMARY DEALERS – Primary government dealers are a group of banks and investment dealers authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its executing of Federal Open Market Operations. Such dealers must be qualified in terms of reputation, capacity and adequacy of staff and facilities.

PRUDENCE - The ability to govern and discipline oneself by the use of reason; shrewdness in the management of affairs; application of skill and good judgment in the use of resources. Also refers to the suitability of investments for the risk and return profile and the time horizon of a given investor.

REPURCHASE AGREEMENT (REPO) - The Repo is a contractual transaction between an investor and an issuing financial institution (not a secured loan). The investor exchanges cash for temporary ownership of specific securities, with an agreement between the parties that on a future date, the financial institution will repurchase the securities at a prearranged price.

REVERSE REPO - The opposite of the transaction undertaken through a regular repurchase agreement. In a "reverse" the OST initially owns securities and the bank or dealer temporarily purchases them with an agreement to sell them back at a higher price at a specific future date. This is, in effect, temporarily borrowing cash at a high interest rate. Most typically, a Repo is initiated by the lender of funds.

SAFEKEEPING - A service to customers rendered by banks for a fee whereby all securities and valuables of all types and descriptions are held in the bank's vaults for protection, or in the case of book entry securities, are held and recorded in the customer's name and are inaccessible to anyone else.

SECURITIES - Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments.

SECURITIES LENDING – The lending of securities in a portfolio to other market participants. May be facilitated by an intermediary securities lending agent such as a custodian bank or broker.

SETTLEMENT DATE - The day on which payment is due for a securities purchase. Fixed income securities typically settle one business day after the trade date.

SUPRANATIONAL INSTITUTION – An international institution that provides financing, advisory services and/or other financial services to its member countries to achieve an overall goal of improving living standards through sustainable economic growth.

TRI-PARTY REPO – A repurchase agreement transaction for which post-trade processing—collateral selection, payment and settlement, custody and management during the life of the transaction—is outsourced by the parties to a third party agent. Tri-party agents are custodian banks.

THIRD-PARTY SAFEKEEPING - A safekeeping arrangement whereby the investor has full control over the securities being held and the dealer or bank investment department has no access to the securities being held.

TREASURY BILLS - Treasury bills are short-term debt obligations of the U.S. Government with maturities of less than one year. They offer maximum safety of principal since they are backed by the full faith and credit of the United States Government. Treasury bills, commonly called "T-Bills," account for the bulk of government financing, and are the major vehicle used by the Federal Reserve System in the money market to implement national monetary policy. T-Bills are sold in three, six, nine, and twelve-month bills. Because treasury bills are considered to be very low risk, these instruments generally yield the lowest returns among the major money market instruments.

TREASURY NOTES – A marketable US government debt security with a fixed interest rate and a maturity between one and ten years. Treasury notes are considered low-risk, since they are backed by the full faith and credit of the US government. Because they are lower risk and highly liquid they generally deliver a lower return than other securities having comparable maturities.

WEIGHTED AVERAGE MATURITY (WAM) – A weighted average of the expiration dates for a portfolio of debt securities. An income fund's volatility can be managed by shortening or lengthening the average maturity of its portfolio.

YIELD - The rate at which an investment pays out interest or dividend income, expressed in percentage terms and calculated by dividing the amount paid by the price of the security and annualizing the result.