New Hampshire State Treasury
Investment Policy for the State's Operating Funds

I. PURPOSE

The purpose of this Investment Policy (the "Policy") is to set general guidelines to provide a clear understanding of the investment objectives of the State's Operating Funds ("Funds"). The Policy shall be used as a guideline for the State Treasurer's Office as well as for the investment advisor, the investment managers, and the custodial agents hired by the State.

This policy is intended to accomplish the stated objectives while ensuring compliance with state and federal laws. This policy is also designed to strengthen internal controls over the safeguarding of the State cash and investments.

This policy applies only to Operating Funds under the administration of the State Treasury. They do not apply to funds belonging to the New Hampshire Turnpike System, State Revolving Fund, Rainy Day Fund, nor to any trust or custodial funds, all of which are governed by their own investment guidelines.

II. INVESTMENT OBJECTIVES

The investment objective of the State's Operating Funds in order of priority, are the following:

- **Safety of Principal –** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

- **Maintenance of Liquidity** - The State's Funds shall remain sufficiently liquid to enable the State to meet all operating requirements which might be reasonably anticipated, including but not limited to payroll, accounts payable, capital projects, debt service, and any other payments.

- **Return on Investment** - The State's Funds shall be managed with the objective of attaining a market rate of return (or higher) throughout the budgetary and economic cycles, taking into account the State's risk constraints and cash flow characteristics of the portfolio.

III. INVESTMENT ADVISORY COMMITTEE

The State has established an Investment Advisory Committee to oversee and monitor management of the Operating Funds portfolio. The Investment Advisory Committee shall consist of three members; the Treasurer, the Deputy Treasurer and Assistant Treasurer, and/or others designated by the State Treasurer.

The Investment Advisory Committee will be charged with the following responsibilities:

1) Review and update the Policy at least annually in response to changes in applicable laws, changing economic and market conditions, and current income needs of the State;
2) Monitor the investment program to ensure that proper controls are in place to ensure the integrity and security of the State's portfolios;
3) Assure that the State is in compliance with the State's written investment policies;
4) Meet periodically to deliberate such topics as economic outlook, portfolio diversification, and maturity structure, cash flow forecasts, potential risks, and the target rate of return on the investment portfolio.

The Committee may retain the services of a third-party investment adviser, registered under the Investment Advisers Act of 1940 or exempt from registration, to assist in performing its duties.

IV. DELEGATION OF AUTHORITY AND RESPONSIBILITIES

State Treasury Office

The Treasurer is authorized to invest the State's Operating Funds within the established guidelines and has also delegated this authority to the Deputy Treasurer and the Assistant Treasurer responsible for cash and investment management.

For any transfer of cash equal to or greater than $50 million in a single transaction, the Treasurer and/or Deputy Treasurer shall be notified and approve the transaction. Additionally, all investments, security purchases or sales shall be approved by the Treasurer or Deputy Treasurer in the Treasurer's absence, or by Assistant Treasurer in the Deputy Treasurer's absence.

Investment Adviser

The State may engage the services of one or more external investment advisers (each an "Investment Adviser") to assist in the management of the State's investment portfolio in a manner consistent with the State's objectives. Such advisers must be registered under the Investment Advisers Act of 1940.

V. STANDARDS OF CARE

Prudence – Investments shall be made with judgment and care, under the 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 first the safety and liquidity of capital and next the probable income to be derived.

Ethics and Conflicts of Interest – Employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees shall refrain from undertaking personal investment transactions with the same broker or account representative with whom business is conducted on behalf of the State.

VI. APPROVED INVESTMENTS

The following are approved investment vehicles as defined in RSA 6:8 and 383-B: 3-303:

1) **U.S. Treasury & Government Guaranteed -** U.S. Treasury obligations, and obligations the principal and interest of which are backed or guaranteed by the full faith and credit of the U.S. Government.
2) **Federal Agency/GSE -** Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. Federal agency, instrumentality or government-sponsored enterprise (GSE).
3) **Commercial Paper –** U.S. dollar denominated commercial paper issued or guaranteed by a domestic or foreign corporation, company, financial institution, trust or other entity, including both unsecured debt and asset-backed programs.
4) **Corporate and Other Debt Obligations –** U.S. dollar denominated corporate notes, bonds or other debt obligations issued or guaranteed by a domestic or foreign corporation, financial institution, non-profit institution, or other entity.
5) **Municipals–** Obligations issued or guaranteed by any state, territory or possession of the United States, political subdivision, public corporation, authority, agency board, instrumentality or other unit of any U.S. state, territory or local government.
6) **Negotiable Bank Deposit Obligations -** Negotiable bank certificates of deposit, deposit notes or other deposit obligations issued by a nationally or state chartered bank, or by a federally or state-licensed branch of a foreign bank or financial institution.
7) **Bank Deposits, including CDs -** Non-negotiable interest bearing time certificates of deposit, savings accounts or deposit accounts in banks organized under the laws of this state or in national banks organized under the laws of the United States and doing business in this state, provided that any such deposits are secured or collateralized, as required by the requirements of New Hampshire RSA 6:8.
8) **Insured Bank Deposits -** Interest bearing time certificates of deposit, savings accounts or deposit accounts fully insured by the Federal Deposit Insurance Corporation (FDIC).
9) **Repurchase Agreements -** Repurchase agreements (Repo or RP) that meet the following requirements:
    a. Must be governed by a written SIFMA Master Repurchase Agreement which specifies securities eligible for purchase and resale, and which provides the

unconditional right to liquidate the underlying securities should the counterparty default or fail to provide full timely repayment.

b. Counterparty must be a Federal Reserve Bank, a Primary Dealer as designated by the Federal Reserve Bank of New York, or a nationally chartered commercial bank.
c. Securities underlying repurchase agreements must be delivered to a third party custodian under a written custodial agreement that may be of deliverable or tri-party form. Securities must be held in the investor's custodial account or in a separate account in the name of the investor.
d. Acceptable underlying securities must be securities that are direct obligations of, or that are fully guaranteed by, the United States or any agency of the United States, including U.S. Agency-issued mortgage-backed securities.
e. Underlying securities must have an aggregate market value, including accrued interest, of at least 102% (or 100% if the counterparty is a Federal Reserve Bank) of the purchase price plus current accrued price differential at the close of each business day.
f. The term of any repurchase agreement transaction must be 1 year or less.

10) **Money Market Funds -** Shares in open-end and no-load money market mutual funds, provided such funds are registered under the Investment Company Act of 1940 and operate in accordance with Rule 2a-7.
11) **Fixed-Income Mutual Funds and ETFs -** Shares in open-end and no-load mutual funds or exchange-traded funds (EFTs) whose stated offering investment strategy is to invest in investment grade fixed-income securities.
12) **Local Government Investment Pools –** State, local government or privately-sponsored investment pools that are authorized pursuant to state law.

VII. INVESTMENT LIMITS AND SPECIFICATIONS

The State's Funds shall be diversified to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. The maximum percentage of the State's funds permitted in each eligible security based on book value at the date of acquisition shall be as follows:

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement[1]	Maximum Maturity
U.S. Treasury	100%	100%	N/A	5 Years
GNMA		40%		
Other U.S. Government Guaranteed		10%		
Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB	100%	50%[4]	N/A	5 Years
Federal Agency/GSE other than those above		10%		
Commercial Paper (CP)	50%[2]	5%[3]	Highest ST Rating Category (A-1/P-1, or equivalent)	365 Days
Corporates	50%[2]	5%[3]	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3 or equivalent)	5 Years
Municipals	25%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)	5 Years
Negotiable Bank Certificates of Deposit	50%[2]	5%[3]	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3, or equivalent)	5 Years
Collateralized Bank Deposits	100%	None, if fully collateralized	None, if fully collateralized.	3 Years
FDIC-Insured Bank Deposits	25%	FDIC limit for insurance	None, if fully FDIC-insured.	3 Years
Repurchase Agreements (Repo or RP)	40%	20%	Counterparty (or if the counterparty is not rated by an NRSRO, then the counterparty's parent) must be rated in the Highest ST Rating Category (A-1/P-1, or equivalent)	1 Year

Money Market Funds (MMFs)	100%	50%	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A
Fixed-Income Mutual Funds & ETFs	50%	20%[5]	N/A	3 year Avg. Duration
Local Government Investment Pools	100%	50%	Highest Fund Quality and Volatility Rating Categories by all NRSROs, *if rated* (AAAm/AAAf, S1, or equivalent)	N/A

Notes:

[1] Rating by at least one SEC-registered NRSRO, unless otherwise noted. ST=Short-term; LT=Long-term.

[2] Maximum allocation to all commercial paper, corporate and negotiable certificates of deposit, excluding fixed-income mutual funds and ETFs is 75% combined.

[3] Maximum across all non-government permitted investment sectors (excluding Treasuries, U.S. Federal Agencies and Agency MBS) is 5% combined per issuer.

[4] Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 50%.

[5] Issuer limits applies per fund; the funds' underlying securities are excluded from the policy's investment restrictions.

[6] Concentration limits and rating requirements apply at the time of purchase measured from the transaction's trade date; maturity requirements measured from the transaction's settlement date.

VIII. GENERAL INVESTMENT AND PORTFOLIO LIMITS

1. General investment limitations:
   a. Investments must be denominated in U.S. dollars and issued for legal sale in U.S. markets.
   b. The minimum credit quality of any investment is A-/A3 long-term, or A-1/P-1 short-term, or its equivalent, by at least one SEC-registered NRSRO, at time of purchase.
   c. Minimum ratings are based on the highest rating by any one NRSRO, unless otherwise specified.
   d. Concentration limits and rating requirements apply at time of purchase measured from the transaction's trade date; maturity requirements measured from the transaction's settlement date.

2. Investment in the following are permitted, provided they meet all other policy requirements:
   a. Callable, step-up callable, called, pre-refunded, putable and extendable securities, as long as the effective final maturity meets the maturity limits for the sector.
   b. Variable-rate and floating-rate securities.
   c. Subordinated, secured and covered debt, if it meets the ratings requirements for the sector.
   d. Zero coupon issues and strips, excluding mortgage-backed interest-only structures (I/Os).

e. Treasury TIPS.

3. The following are **NOT PERMITTED** investments**:**
   a. Trading for speculation.
   b. Derivatives (other than callables and traditional floating or variable-rate instruments).
   c. Mortgage-backed interest-only structures (I/Os).
   d. Inverse or leveraged floating-rate and variable-rate instruments.
   e. Currency, equity, index and event-linked notes (e.g. range notes), or other structures that could return less than par at maturity.
   f. Convertible, high yield, and non-U.S. dollar denominated debt.
   g. Short sales.
   h. Use of leverage.
   i. Futures and options.
   j. Mutual funds, other than fixed-income mutual funds and ETFs, and money market funds as previously defined.
   k. Equities, commodities, currencies and hard assets.

IX. SAFEKEEPING AND CUSTODY

All investment securities purchased by the State or held as collateral on deposits or investments shall be held by the State or by a third-party custodial agent that may not otherwise be counterparty to the investment transaction.

All securities in the State's Funds will be held in the name of the State and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs.-payment basis. On a monthly basis, the custodial agent will provide reports that list all securities held for the State, the book value of holdings, and the market value as of month-end.

Original copies of non-negotiable certificates of deposit and confirming copies of all other investment transactions must be delivered to the State or its custodial agent.

X. REPORTING REQUIREMENTS

On a monthly basis, a report shall be provided including a listing of the existing portfolio in terms of investment securities, market value, maturity date, market yield, and other features deemed relevant. The market values presented in these reports will be consistent with accounting guidelines and GASB Statement 31 and 72 pertaining to the valuation of investments and the treatment of unrealized gains/losses. In addition, the investment report summarizes (i) recent market conditions, economic developments and anticipated investment conditions, (ii) a description of all securities held in the investment portfolio at quarter end, (iii) the total rate of return for the quarter and year-to-date versus appropriate benchmarks (where applicable), (iv) Investment Adviser and internal compliance with this Investment Policy, and (v) any areas of policy concern warranting possible revisions to current or planned investment strategies.

XI. AUTHORIZED BROKER/DEALERS

The Treasurer will maintain a list of broker/dealers that are approved for investment purposes. All broker/dealers who desire to provide investment services to the Treasurer will be provided with a current copy of the State's Investment Policy. Before an organization can provide investment services to the Treasurer, it must confirm in writing that it has received and reviewed the Treasurer's Investment Policy.

At the request of the Treasurer, broker/dealers will supply the Treasurer with information sufficient to adequately evaluate their financial capacity and creditworthiness. The following information will be provided:

- audited financial statements;
- regulatory reports on financial condition;
- proof of Financial Institution Regulatory Authority ("FINRA") certification and of state registration;
- any additional information requested by the Treasurer in evaluating the creditworthiness of the institution.

Only firms meeting the following requirements will be eligible to serve as broker/dealers for the State:

1) "Primary" dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
2) Registered as a dealer under the Securities Exchange Act of 1934;
3) Member of FINRA;
4) Registered to sell securities in the State of New Hampshire; and
5) Engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.

If an external third-party Investment Adviser is engaged, the Treasurer may designate that Investment Adviser to maintain a list of approved broker/dealers.

XII. ENGAGEMENT OF INVESTMENT ADVISERS

The Treasurer may engage one or more qualified firms to provide investment advisory services to the State. All investment advisory firms who desire to provide investment services to the Treasurer will be provided with current copies of the Treasurer's Investment Policy. Before an organization can provide investment services to the Treasurer, it must confirm in writing that it has received and reviewed the State's Investment Policy.

Only firms meeting the following requirements will be eligible to serve as an investment adviser for the State:

1) Registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940;
2) Must provide to the Treasurer a copy of Form ADV, Part II; and
3) Must be registered to conduct business in the State of New Hampshire.

Any firm engaged by the Treasurer to provide investment services shall:

1) Maintain a list of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the State of New Hampshire;
2) Provide monthly reports of transactions and holdings to the Treasurer;
3) Provide quarterly performance reports that display investment performance in comparison to the Treasurer's investment benchmarks and which show that the manager has solicited at least three bids for any security purchased or sold on behalf of the Treasurer; and
4) Not collect any soft dollar fees from any broker/dealer or other financial firm in relation to services provided to the Treasurer.

XIII. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

With the exception of i) deposits and ii) investments in New Hampshire community (state-chartered) banks, all securities purchases and sales will be transacted only with designated broker/dealers through a formal and competitive process requiring the solicitation and evaluation of at least three bids/offers, taking into consideration current market conditions. Electronic bids will be accepted.

The Treasurer will accept the bid which, in the sole judgment of the Treasurer or his/her designee: (a) offers the highest rate of return within the maturity required; (b) optimizes the investment objective of the overall Investment Portfolio, including diversification requirements. When selling a security, the Treasurer will select the bid that generates the highest sale price, consistent with the diversification requirements.

XIV. INTERNAL CONTROLS

The Treasurer shall establish a framework of internal controls governing the administration and management of the Treasurer's Operating Funds Portfolio. Such controls shall be designed to prevent and control losses of the Treasurer monies arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by any personnel. The internal control structure shall be 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 require estimates and judgments by management.

XV. PERFORMANCE STANDARDS

The State's Investment Adviser shall prepare a monthly portfolio report including: (i) a listing of the existing portfolios in terms of investment securities, amortized book value, maturity date, yield-on-cost, market value, credit ratings, and other features deemed relevant and (ii) a listing of all transactions executed during the month.

The State's Investment Adviser shall prepare and submit to the Investment Advisory Committee a "Quarterly Investment Report" that summarizes (i) recent market conditions, economic developments, and anticipated investment conditions, (ii) the investment strategies employed in the most recent quarter, (iii) a description of all securities held in investment portfolios at quarter end, (iv) the total rate of return for the quarter and year-to date versus appropriate benchmarks, and (v) 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 GASB account guidelines pertaining to the valuation of investments and the treatment of unrealized gains/losses

The Operating Funds Portfolio will be designed to obtain at least a market level rate of return, given budgetary and economic cycles, commensurate with the State's investment risk and cash flow needs. The portfolio management approach will be active, allowing periodic restructuring of the Portfolio to take advantage of current and anticipated interest rate movements. The returns on the Portfolios will be compared on a quarterly basis to indices of U.S. Treasury securities having similar maturities or to other appropriate benchmarks. For funds having a weighted average maturity greater than 90 days, performance will be computed on a total return basis.

XVI. OTHER CONSIDERATIONS

Cost of Banking and Investment Services: Costs associated with banking services are paid either through hard dollar fees or by maintaining a sufficient balance to compensate the bank for services rendered ("compensating balances"). In extremely low interest rate environments, it is likely the State will incur bank service fees in an amount greater than the income generated from deposited funds. Bank service fees may settle monthly, quarterly, or annually. Fees will reduce any return realized.

XVII. ADOPTION & REVIEW

The Treasurer reviews and approves the investment policy at least annually.

This policy was last reviewed and approved on January 17, 2024.

XVIII. APPENDIX - DEFINITIONS

Accretion: The increase in the value of a discounted instrument as time passes and as the maturity date gets closer. The value of the instrument will accrete (grow) at the interest rate implied by the discounted issuance price, the value at maturity, and the term to maturity.

Accrued Interest: The interest that has accumulated but has not yet been paid from the most recent interest payment date or issue date to a certain date.

Agency: A debt security issued by an agency or instrumentality of the United States. Agencies are backed by each particular agency or instrumentality of the United States with a market perception that there is an implicit government guarantee.

Amortized Cost: The original cost of the principal adjusted for the periodic reduction of any discount or premium from the purchase date until a specific date (also called “Book Value”).

Amortization: The systematic reduction of the amount owed on a debt issue through periodic payments of principal. The decrease in the value of a premium instrument as time passes and as the maturity date gets closer. The value of the instrument will amortize (decrease) at the interest rate implied by the discounted issuance price, the value at maturity, and the term to maturity.

Ask/Offer: The price at which securities are offered.

Bid: The indicated price at which a buyer is willing to purchase a security or commodity.

Bond: A long-term debt instrument of a government or corporation promising payment of the original investment plus interest by a specified future date.

Broker: A broker facilitates security trades on behalf of investors (see Dealer).

Collateralization: Process by which a borrower pledges securities, property or other deposits for the purpose of securing the repayment of a loan and/or security.

Credit Quality: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Risk: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CUSIP: A unique identifier for a security developed by the Committee on Uniform Security Identification Procedures (CUSIP). The identifier is a nine-digit alphanumeric character. The first six characters identify the issuer, the following two identify the issue, and the final character is a check digit. CUSIPs are correlated to an alphabetical listing of the issuer’s name.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for their own account. (see Broker).

Delivery (Settlement): There are typically four types of delivery or settlement of securities: cash, which is the same day as the transaction occurred; regular, which trade day plus one; corporate, which is trade day plus two; and forward, which typically occurs three to thirty days after the trade date.

Delivery Versus Payment (DVP): A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Discount: The sale/purchase of a fixed-income security when the transaction price is lower than the face value.

Duration: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Federal Deposit Insurance Corporation (FDIC): FDIC is one of the two agencies that supply deposit insurance to depositors in American depository institutions.

Federal Farm Credit Bank (FFCB): FFCB is a government sponsored enterprise that is a network of cooperatively-owned lending institutions that provide credit services to farmers, agricultural cooperatives and rural utilities.

Federal Home Loan Bank (FHLB): FHLB is a network of 11 regional banks that provide cash to other banks in order to keep money flowing to consumers and businesses.

Federal Home Loan Mortgage Corporation (FHLMC): FHLMC is a stockholder-owned, government sponsored enterprise chartered by Congress in 1970 in support of homeownership for middle-income Americans.

Federal National Mortgage Association (FNMA): FNMA is a government-sponsored enterprise that makes mortgages available to low- and moderate-income borrowers.

Fixed-income security: An investment that generates periodic interest payments.

Financial Industry Regulatory Authority (FINRA): FINRA is a private corporation, authorized by Congress, that acts as a self-regulatory organization. FINRA is the successor to the National Association of Securities Dealers, Inc. and the member regulation, enforcement, and arbitration operations of the New York Stock Exchange. FINRA also provides BrokerCheck, which is a service to obtain information regarding brokers, brokerage firms, and investment advisors.

Generally Accepted Accounting Principles (GAAP): GAAP refer to a common set of accepted accounting principles, standards, and procedures that companies and their accountants must follow when they compile their financial statements. GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. GAAP improves the clarity of the communication of financial information.

Governmental Account Standards Board (GASB): GASB is a non-profit entity that was organized in 1984 by the Financial Accounting Foundation (FAF) to establish standards of financial accounting and reporting for state and local governmental entities. Its standards guide the preparation of external financial reports of those entities.

Government National Mortgage Association (GNMA): GNMA is a federal government corporation that guarantees principal and interest payments on mortgage-backed securities issued by approved lenders.

Government Sponsored Enterprises (GSEs): Federally-chartered agency or instrumentality of the United States Government.

Investment: A commitment of dollars for a period of time with the expectation of receiving future payments and/or appreciation and compensate the investor for the time that the funds are committed and the uncertainty of a future return.

Investment Company Act of 1940: Federal legislation, which 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.

Local Government Investment Pool (LGIP): An investment by local governments in which their money is pooled as a method for managing local funds.

Maturity: The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder.

Money Market Fund: Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos, and federal funds).

Municipal Bond: A municipal bond is a debt security issued by a local government, such as county, state, city, special improvement district, to finance its capital expenditures, including the construction of highways, bridges or schools. Municipal bonds can issue taxable or tax-exempt from federal, state, and local taxes.

Mutual Fund: A mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities. These investors may be retail or institutional in nature. Mutual funds have advantages and disadvantages compared to direct investing in individual securities.

Nationally Recognized Statistical Rating Organization (NRSRO): A credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. The most recognized NRSROs are Fitch, Moody's, and Standard and Poor's.

Premium: The sale/purchase of a fixed income security when the transaction price is greater than the par amount.

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

Principal: A single capital sum, separate and apart from interest, income, or expenses, which may be further defined as the amount borrowed, lent, or otherwise invested. Interest, income, or expenses may be expressed as a percentage of the principal.

Repurchase Agreements (REPO): An agreement with an approved broker/dealer that provides for the sale and simultaneous purchase of an allowable collateral security. The difference in the sale and purchase price is the earning rate on the agreement. A master repurchase agreement must be in place with the approved broker/dealer.

Rule 2a-7 of the Investment Company Act: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13- month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

Securities and Exchange Commission (SEC): The government agency that regulates and supervises the securities industry. The commission administers federal law, formulates and enforces rules to protect against malpractice, and seeks to ensure that companies provide the fullest possible disclosure to investors. All of the national exchanges and virtually all institutions in the securities industry fall under its jurisdiction.

Security: A type of investment instrument that represents either an ownership interest in a government or corporate entity or an evidence of debt issued by such entity, and has a market value which may fluctuate.

Sweep Account: Per the Securities Exchange Act of 1934, bank-facilitated transactions as part of a program for the investment or reinvestment of deposit funds into any no-load, open ended investment management company registered as a money market fund under the Investment Company Act of 1940.

Total Return: The sum of all investment income plus realized and unrealized gains and losses.

Uniform Net Capital Rule: SEC Rule 15C3-1 outlining capital requirements for broker/dealers who must maintain a maximum ratio of indebtedness to liquid capital of 15 to 1. Indebtedness covers all money owed to a firm, including margin loans, and commitments to purchase securities (one reason new issues are spread among members of underwriting syndicates). Liquid capital includes cash and assets easily converted to cash.

Weighted Average Maturity (WAM): The average maturity of all the securities that comprise a portfolio, weighted by the individual securities.

Yield Curve: A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

Yield-to-Maturity (YTM): The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

Yield-to-Worst (YTW): The YTW is the lowest potential yield that can be received on a bond without the issuer actually defaulting. The YTW is calculated by making worst-case scenario assumptions on the issue by calculating the return that would be received if the issuer uses provisions, including prepayments or calls.