

**CITY AND COUNTY OF DENVER**  
**DEPARTMENT OF FINANCE - TREASURY DIVISION**

**INVESTMENT POLICY**



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**CITY AND COUNTY OF DENVER  
DEPARTMENT OF FINANCE - TREASURY DIVISION  
INVESTMENT POLICY**

A. POLICY

It is the policy of the City & County of Denver to invest its funds in a manner which will provide for the highest investment return consistent with the preservation of principal and provision of the liquidity necessary for daily cash flow demands. All such investment activity shall conform to Section 2.5.3(c) of the Charter of the City and County of Denver, and Section 20-21 of the Denver Revised Municipal Code, attached as Exhibit A. It is also the policy of the City and County of Denver to ensure that proceeds of tax exempt bond issues are invested in accordance with Internal Revenue Service (IRS) requirements, including federal arbitrage rebate requirements as specified in the Internal Revenue Code.

B. SCOPE

This Investment Policy applies to all investment activity of the City and County of Denver under the control of the Manager of Finance, including investments of certain monies held in the following fund types:

General Fund,  
Special Revenue Funds,  
Debt Service Funds,  
Capital Projects Funds,  
Enterprise Funds, and  
Trust and Agency Funds

as presented and accounted for in the City and County of Denver's Comprehensive Annual Financial Report (CAFR). Other monies that may from time to time be delegated to the Manager of Finance for investment shall also be administered in accordance with this Investment Policy. Investment activities of the Denver Water Board and the Denver Employee's Retirement Plan exist separately and are not governed by this Policy.

C. PRUDENCE

Investments shall be made with judgment and care, under prevailing circumstances, which a person of prudence, discretion and intelligence exercises in the management of

his own affairs, not for speculation, but for investment, considering the probable safety of principal as well as the probable income to be derived.

The standard of prudence to be used by City investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officials acting in accordance with this Investment Policy, its companion Investment Procedures, and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes.

#### D. INVESTMENT OBJECTIVES

The primary objectives of the City & County of Denver’s investment activities, in order of priority, shall be:

1. SAFETY -- Safety of principal is the foremost objective of this Investment Policy. Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the portfolio.
2. LIQUIDITY -- Investments will remain sufficiently liquid to enable the City to meet all needs for cash which might reasonably be anticipated for each investment pool. Adequate, but not excessive, liquidity shall be the objective.
3. YIELD -- Investments shall be managed with the objective of attaining the highest total rate of return consistent with the safety of principal and liquidity constraints of each pool.

These investment objectives will be applied independently to each investment portfolio of the City and County of Denver.

#### E. RISKS

Investments shall be managed in accordance with portfolio theory management principles to compensate for actual or anticipated changes in market interest rates.

To the extent possible, investment maturity will be matched with anticipated cash flow requirements of each investment portfolio. Additionally, to the extent possible, investments will be diversified by security type and institution. This diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Deviations from expectations shall be reported in a timely fashion and appropriate action taken to control adverse developments.

## F. DELEGATION OF AUTHORITY

Authority to manage the City and County of Denver's investments is derived from Section 2.5.3(c) of the Charter of the City and County of Denver, attached as Exhibit A-1, and from Section 20-21 of the Denver Revised Municipal Code, attached as Exhibit A-2. Management responsibility for the investment program resides with the Manager of Finance, who shall establish written procedures for the operation of the investment program consistent with this Investment Policy. Such procedures shall include explicit delegation of authority to employees responsible for investment transactions and shall establish a system of controls to regulate the activities of employees who are involved in the execution of investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Manager of Finance.

## G. AUTHORIZED INVESTMENTS

Section 2.5.3(c) of the Charter of the City and County of Denver authorizes the Manager of Finance to invest in the following securities:

1. Obligations of the United States Government;
2. Obligations of the United States Government agencies and United States Government sponsored corporations;
3. Prime Bankers' Acceptances;
4. Prime Commercial Paper;
5. Insured or Collateralized Certificates of Deposit issued by Denver banks and savings and loan institutions;
6. Repurchase Agreements;
7. Security Lending Agreements;
8. Highly Rated Municipal Securities;
9. Money Market Funds that purchase only the types of securities specified in this policy; and
10. Other similar securities as may be authorized by ordinance.

## H. PORTFOLIO CONSTRAINT SUMMARY

The Manager of Finance shall have the authorization to waive the stated portfolio constraints when such action is deemed to be necessary or desirable and in the best interest of the City. Any such waiver shall be proposed by Investment Administration after conferring with the Investment Advisor, and reviewed and recommended by the Investment Committee via a memorandum to the Manager of Finance. The IAC shall be advised of any waivers either prior to or subsequent to the effective date of the waiver.

<u>Security</u>	<u>Maximum % of Portfolio (1)</u>	<u>Maximum Maturity (1)</u>	<u>Maximum per Provider as % of Portfolio (1)</u>
Treasury Securities	100%		
Bond Reserve		10 Years	N/A
Non-Reserve		10 Years	N/A
Treasury Strips			
Bond Reserve	10%	10 Years	N/A
Non-Reserve	5%	10 Years	N/A
Repurchase Agreements (5)			
Overnight/Open/Term	50%	1 Year	25%
Flex	30%	10 Years	25%
Agency Securities	80%		
Bond Reserve		10 Years	(2)
Non-Reserve		10 Years	
Commercial Paper (3)	(3)	366 Days	(3)
Bankers Acceptances		6 Months	
Certificates of Deposit (4)	15%	2 Years	5%
Securities Lending (5)	30%	1 Year	15%
When Issued Treasury Securities	15%		
Bond Reserve		10 Years	N/A
Non-Reserve		10 Years	
Money Market Funds (6)	25%	N/A	25%
Highly Rated Municipal Securities (7)			
Defeasance Escrow	N/A	(7)	N/A
Bond Reserve	30%	15 Years	5%
Non-Reserve	15%	15 Years	5%
Forward Purchase Agreements (8)	15%	(8)	10%
Debt Service Fund Put Agreements (8)	15%	(8)	10%

## Notes to the PORTFOLIO CONSTRAINT SUMMARY

1. All percentage composition limits will be determined based on market value of securities. For those securities with a permitted maximum maturity of 10 years or greater, investments in individual securities with final maturities of greater than 5 years shall be made in the context of the duration characteristics and the portfolio structures associated with the selected benchmarks for the portfolio.
2. 25% - Farm Credit Obligations, Federal Home Loan Mortgage Obligations, Federal National Mortgage Association Obligations, Federal Home Loan Bank Obligations, Tennessee Valley Authority Obligations.  
  
30% - TLGPs - Notes issued by corporations under the Federal Deposit Insurance Corporation's (FDIC) Temporary Liquidity Guarantee Program (TLGP). These notes are backed by the full faith and credit of the United States Government. No more than 30% of the total portfolio may be invested in TLGP notes and no more than 5% per issuer. Notes must be rated AAA by a nationally recognized statistical rating agency (NRSRO).  
  
10% - United States Agency for International Development Obligations.  
  
5% - Resolution Funding Corporation Obligations, provided that such REFCORP securities are tied to a known cash liability related to bonds issued by the City and further provided that the maturity of the REFCORP securities not exceed the date of such cash liability.  
  
0% - Export Import Bank Obligations, Federal Financing Bank Obligations.
3. A maximum of 50% of the portfolio may be invested in a combination of Commercial Paper and Bankers' Acceptances. A maximum of 5% of the portfolio may be invested in a combination of Commercial Paper and Bankers' Acceptances of any one provider (issuer). Bankers' Acceptances and Commercial Paper (a) shall be rated by at least two of the three following rating agencies: Standard & Poor's Ratings Services; Moody's Investors Service, Inc.; or Fitch, Inc. or their successor; (b) at the time of purchase, any rating published by Standard & Poor's, Moody's, and Fitch shall be considered; (c) in regards to each rating so published, at the time of purchase the commercial paper must carry a minimum rating of A-1, P-1, and F-1 from Standard & Poor's, Moody's, and Fitch, respectively; and (d) at the time of purchase, the commercial paper shall not carry a negative ratings outlook, i.e., is on Creditwatch, Watchlist, or Rating Watch. Edge Act Bankers' Acceptances are not permissible investments given the lack of direct parent

obligation status. Working Capital Bankers' Acceptances are ineligible investments since they lack the contingent obligation of an underlying transaction and are not eligible collateral at the Federal Reserve. No Convention Center bond funds may be invested in Bankers' Acceptances.

4. Certificates of Deposit must be issued by Commercial banks and savings and loans that have a commercial bank branch office located in Denver, certified as Eligible Public Depositories by the appropriate State regulatory agency. Institutions must have a minimum equity of \$100,000,000. Commercial banks must maintain a minimum capital to assets ratio of 5%. Savings and Loans must maintain a net worth to assets ratio of 5%. Any institution that records a negative return on assets for two consecutive quarters will be disqualified from bidding for deposits.
5. Repurchase Agreements and Securities Lending Agreements may be executed only with primary dealers and national banks with a minimum long-term rating of AA or Aa3 as assigned by Standard and Poor's Corporation or Moody's Investors Services, Inc., respectively. National banks rated lower the AA could be included if there is appropriate additional security for the transaction.
6. The City is restricted to investing in MMF's that are solely comprised of the types of securities specified in the Charter. No investment may be made in a MMF that charges a sales or load fee to the purchase or redemption. The policy of the fund must include a statement that they will seek to maintain a constant share price. Permissible MMF include MMF registered under the Investment Company Act of 1940, and regulated in accordance with Section 2a-7 of the SEC. MMF's must be offered by eligible Primary Dealers, a depository bank of the City, or a Local Government Investment Pool Trust Fund organized in conformity with the Investment Funds – Local Government Pooling Act (Part 7, Article 75, Title 24, Colorado Revised Statutes) with an office located within Colorado. The MMF shall either have over \$1 billion in assets or have the highest current credit rating from one or more nationally recognized organizations that regularly rate such obligations.
7. Fixed rate HRMS may be used for defeasance escrows, especially when the U.S. Treasury is unable to issue SLGs due to debt limits imposed by the U.S. Congress, or it is advantageous for the City to invest in securities that are not arbitrage yield limited to the final maturity of the City's municipal bond issue to which the investment corresponds.

Additionally, HRMS may be acquired as an investment security. HRMS for which the City is neither the issuer or an obligated party shall be rated by at least two of the following credit rating agencies, Standard & Poor's, Fitch and Moody's Investor Services, and either; (a) at the time of purchase of fixed rate securities, the HRMS shall be rated at least A+ by Standard & Poor's and Fitch and A1 by Moody's and shall not carry a negative rating outlook, i.e. on Creditwatch, Watchlist, or Rating Watch, or (b) at the time of purchase of variable rate securities with short term ratings, the HRMS shall be

rated at least A-1, F-1, or P-1, respectively, or in the case of Variable Rate Demand Obligations (VRDO's), VMIG1, VMIG2, or VMIG3 by Moody's: For variable rate securities which have short term ratings meeting the criteria listed above, or which have no short term ratings, the security will qualify for purchase if either ; (a) a minimum of two underlying issuer ratings at the time of purchase are at least A+ from Standard & Poor's and Fitch and A1 from Moody's, regardless of the long term ratings and regardless of whether the long term ratings carry a negative rating outlook, i.e. on Creditwatch, Watchlist, or Rating Watch, or (b) shall be rated at least A+ by Standard & Poor's and Fitch and A1 by Moody's and shall not carry a negative rating outlook, i.e. on Creditwatch, Watchlist, or Rating Watch. If the issuer has announced the intent to refund HRMS meeting any the ratings criteria specified above, the requirement that the long term ratings not carry a negative rating outlook, i.e. on Creditwatch, Watchlist, or Rating Watch, and the final maturity limit of 15 years for HRMS, are waived.

HRMS for which the City is either the issuer or an obligated party may be purchased if there is an underlying issuer rating from at least one of the three rating agencies of at least A from Standard & Poor's and Fitch and A2 from Moody's at the time of acquisition, and the underlying rating is not on Creditwatch, Watchlist, or Rating Watch. Furthermore, HRMS for which the City is either the issuer or an obligated party may have a "Maximum Maturity" in excess of 15 years, and may be held without limit, with the approval of the Manager of Finance, in addition to other bonds subject to the "Maximum % of Portfolio" and "Maximum per Provider as % of Portfolio" indicated in the "PORTFOLIO CONSTRAINT SUMMARY".

8. The maximum maturity of Forward Purchase Agreements and Debt Service Reserve Fund Put Agreements is limited by the maximum maturity of the City's municipal bond issue to which the investment corresponds. The City will only enter into FPA or PUT agreements with primary dealers having minimum ratings of A, A2 or A as assigned by Standard & Poor's Corporation ("S&P"), Moody's Investors Service ("Moody's") or Fitch ("Fitch"), respectively or with other entities having minimum ratings of AA, Aa2 or AA as assigned by S&P, Moody's or Fitch, respectively. Additionally, any such FPA agreements shall be structured with downgrade language which will allow the City to terminate the agreement in the event that the Provider's long-term credit rating(s) falls to a level which would cause an adverse impact on the ratings of the City bonds to which the FPA agreement relates.

I. INVESTMENT ADVISORY COMMITTEE

Pursuant to Section 20-21 D. of the Revised Municipal Code of the City and County of Denver, the Manager of Finance shall appoint an Investment Advisory Committee (IAC) to advise the Manager regarding departmental investment activities. Members of the Committee must certify that they have no conflict of interest with the City's investment activities, including but not limited to having an interest in: the sales of securities to the City; the structuring and/or acquisition of securities for an escrow for the refunding of outstanding City obligations; or a service which provides ratings related to investments. Members shall serve without compensation for two year terms, subject to reappointment by the Manager of Finance without limitation. The duties and responsibilities of the Investment Advisory Committee may include:

1. Review the City's Investment Policy and Policy changes and portfolio performance standards; and
2. Provide an independent third party review of investment results against policy objectives and market conditions; and
3. Provide recommendations during turbulent or unusual market events; and
4. Provide other assistance to the Manager upon request.

J. INVESTMENT ADVISOR OR CONSULTANT (ADVISOR)

The Manager of Finance may appoint an independent Advisor to advise the City on investment activities. The Advisor shall serve at the Manager of Finance's discretion. It is expected that any Advisor is to be selected through a competitive process, unless the Manager determines that the circumstances of such an appointment warrant an alternative method. If such an appointment is made absent a competitive process, it is further expected that such appointment will be for a clear and compelling rationale, e.g. a narrowly defined scope of work (aka a limited scope engagement) and/or a limited duration of not greater than 12 months. The duties and responsibilities of the Advisor may include:

1. Providing advice and analysis on the City's Investment Policy, portfolio management techniques, portfolio structures or new investment securities and products;
2. Assistance in developing or improving and implementing cash flow modeling;
3. Providing advice on investment benchmarking and performance reporting;

4. Evaluation of the capabilities and usage of software utilized in management of and accounting for the investments;
5. Assisting in any investment related presentations to City Council; and
6. Providing analysis, advice and assistance on other investment-related matters.

#### K. ADDITIONS AND CHANGES

This Investment Policy may be changed under the direction of the Manager of Finance as conditions warrant. All additions and changes to this Investment Policy must comply with Section 2.5.3(c) of the Charter and Section 20-21 of the Denver Revised Municipal Code, and shall be proposed by Investment Administration after conferring with the Investment Advisor, and reviewed and recommended by the Investment Committee via a memorandum to the Manager of Finance. The IAC shall be advised of any changes either prior to or subsequent to the effective date of the change.

#### L. COLLATERALIZATION

Collateralization will be required on three types of investments: uninsured certificates of deposit, repurchase agreements and security lending agreements.

##### 1. Uninsured Certificates of Deposit

Uninsured certificates of deposit with Denver banks and savings and loan institutions shall be collateralized in accordance with the State's Public Deposit Protection Act (PDPA). The PDPA requires at least 100% collateralization of funds based upon the highest daily amount of public funds on deposit in the prior month. Compliance with the Act is monitored by the State Division of Banking and the Division of Savings and Loan. Additionally, CD's are insured by their respective Federal regulatory agencies up to \$100,000. Under no circumstances shall the City invest in certificates of deposit with local institutions which are not Eligible Public Depositories as defined under Colorado law (and therefore are not required to collateralize public deposits in accordance with PDPA).

##### 2. Repurchase Agreements and Security Lending Agreements

At inception, repurchase agreements and security lending agreements shall be collateralized at no less than 102% of the principal amount of the investment plus accrued interest by obligations of the United States Government, United States Government agencies and United States Government sponsored corporations (excluding mortgage-backed securities). All such collateral shall have a maximum maturity of thirty years. Collateral will be marked to market at any time at the discretion of the City, but no less frequently than weekly. Additional collateral will be required upon market valuations below 101%, as measured by

the cumulative market value of all collateral held against all money invested under Repurchase and Security Lending agreements on a dealer by dealer basis.

#### M. SECURITY SELECTION AND ELIGIBLE DEALERS

Eligible dealers for U.S. Government or Agency securities shall include primary dealers and pre-qualified dealers with offices located in Denver. Minimum criteria for consideration shall include a minimum net capital in excess of \$100 million, and a local Denver institutional sales office that has been in place for a minimum of 5 years, with adequate staffing to provide both backup coverage and local sales support. Eligible dealers for HRMS shall include primary dealers, auction agents and remarketing agents. Eligible dealers for commercial paper and bankers acceptances shall include both direct issuers and dealers in the secondary market.

Investments will be selected competitively by any method determined to be in the best interests of the City. These may include processes utilizing available electronic screening or trading resources and may also include analytical evaluations which effectively results in a competitive selection, taking into account current market conditions and the specific products being acquired. Price of execution will be the primary determinant of selection. However, given equal prices, preference will be given to the dealer which added value to the City through the initiation of a trade idea, if applicable, or to any eligible firms who has provided high quality service and aggressive rates on day-to-day investments of the City over the long term.

#### N. ETHICS AND CONFLICTS OF INTEREST

Employees involved in the investment process shall not engage in personal business activity that could conflict with the proper management of the portfolio or which could affect their ability to make impartial investment decisions. Employees shall subordinate their personal investment transactions to those of the City and County of Denver, particularly with regard to the timing of purchases and sales. Employees shall disclose to the Manager of Finance any material financial interests in financial institutions that conduct business with the City, and any significant personal financial/investment positions that could be related to the performance of the City and County of Denver's portfolio.

#### O. SOCIAL RESPONSIBILITY

Denver will make its best efforts, with the resources available, to ensure that it does not participate in an ownership or capital-providing capacity with entities that;

1. directly or indirectly participate in or support activities that do not have respect for human rights around the world, or
2. are conducting business with a terrorist-sponsoring State.

P. PERFORMANCE STANDARDS

The portfolio will be managed to obtain a market average yield or higher compared to indices selected by the Manager of Finance, taking into account the objectives of this Investment Policy.

Q. CUSTODY

1. All securities are to be held at the Federal Reserve Bank, Depository Trust Company, or other depositories deemed secure by the Manager of Finance in the name of the City and County of Denver.
2. Individuals who are authorized to conduct City investment transactions shall be designated by the Manager of Finance, see Exhibit B.
3. All securities are to be purchased on a delivery versus payment (DVP) basis.

R. PROCEDURES

Specific securities transaction procedures shall be established by the Manager of Finance.

## **EXHIBIT A-1**

### **SECTION 2.5.3(c) OF THE CHARTER OF THE CITY AND COUNTY OF DENVER**

2.5.3(c) Bank Depository - Investment of Funds. The Manager of Finance shall, with the approval of the Mayor, select one or more banking or savings and loan institutions for deposit of public funds. Before any deposit shall be made, the bank or savings and loan institution shall pledge sufficient collateral as required by law. The Manager is authorized to invest the funds in his custody or possession in the following securities: obligations of the United States Government, obligations of the United States Government agencies and United States Government sponsored corporations, prime bankers' acceptances, prime commercial paper, certificates of deposit issued by banks and savings and loan institutions, repurchase agreements, security lending agreements, highly rated municipal securities, money market funds that purchase only the types of securities specified herein, and in other similar securities as may be authorized by ordinance.

## EXHIBIT A-2

### SECTION 20-21 OF THE DENVER REVISED MUNICIPAL CODE

#### INVESTMENT OF FUNDS

- A. Subject to the restrictions of the Charter and as authorized additionally by this section of the Code, the Manager of Finance is hereby empowered to invest the moneys credited to any fund without appropriation, buying and selling at the Manager of Finance's discretion, provided that the return from the investments be credited to the fund in proportion to the amount from such fund so invested, subject, however, to paragraph (b) below.
- B. The Manager of Finance, in order to account for services rendered and expenses incurred in the administration, management and investment of the nonsubsidized enterprise funds shall transfer, and is authorized hereby to transfer, as an investment fee from earnings for each such fund to Fund No. 0100, the General Fund, an amount in the Manager of Finance's discretion which shall be no higher than the fee commonly charged by private investment advisers, but based upon the same factor for each fund or account, of not greater than the amount obtained by multiplying the average monthly balance available for investment in 1984 and subsequent years in each such fund from all sources by the factor 0.00375; and said amounts thus transferred upon the directive of the Manager of Finance as applicable to each fund shall be so noted upon the books of account and appropriate fiscal records of the City by the Manager of Finance.
- C. Subject to the restrictions of paragraphs (a) and (b) above, investments by the Manager of Finance may, in addition to those specifically listed in the Charter, include investments in Resolution Funding Corporation (REFCORP) Securities, Debt Service Reserve Fund PUT Agreements (PUT), and Forward Purchase Agreements.
- D. The Manager of Finance shall appoint an investment committee to advise the manager regarding departmental investment activities.

**EXHIBIT B**

**CITY AND COUNTY OF DENVER**

**List of Authorized Investment Officials**

**Name/Title**

**Signature**

**R. O. Gibson**  
**Director of Financial Management**

\_\_\_\_\_

**William S. Franz**  
**Portfolio Administrator**

\_\_\_\_\_

**Caroline C. Hendrickson**  
**Cash Management Administrator**

\_\_\_\_\_

**Lauren Hobbs**  
**Senior Financial Management Analyst**

\_\_\_\_\_

**Joe Strese**  
**Senior Financial Management Analyst**

\_\_\_\_\_

**I hereby certify that the individuals listed above are authorized to invest funds for the City and County of Denver as specified in this Investment Policy:**

**Claude Pumilia**  
**Manager of Finance**

\_\_\_\_\_ **Date** \_\_\_\_\_

APPENDIX 1.  
GLOSSARY OF TERMS

AGENCY SECURITIES (AGENCIES): A security issued by a federal agency or federally-sponsored corporation. For the City and County of Denver, eligible Agency securities include obligations of the Farm Credit System, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Federal Home Loan Bank, the Tennessee Valley Authority, the United States Agency for International Development, the Export-Import Bank of the United States, and the Federal Financing Bank. Liquidity is not as extensive as the market for direct government obligations. Price volatility results from changing market interest rates, which normally increase for securities with longer durations.

AUCTION OF THE 90-DAY TREASURY BILL: Auctions of 90-day Treasury bills are generally held each Monday which determines the auction rate.

AUCTION RATE: The interest rate that will be paid on T-bills.

BANKERS' ACCEPTANCE: A draft or bill of exchange created as a result of an international trade transaction accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. A Bankers' Acceptance is an irrevocable primary obligation of the accepting bank and a contingent obligation of the drawer and of any endorser whose names appear upon it.

BASIS POINTS (BPS): A unit that is equal to 1/100th of 1%, and is used to denote a change in a rate or yield of a financial instrument.  
1% change = 100 basis points, and 0.01% = 1 basis point.

BOOK VALUE: The price paid for a particular asset, adjusted for amortization of any premium or accretion of any discount over the term of the investment. The book value is the amount included on the balance sheet.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides. The broker does not own the security position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

CALL OPTION: A contract giving the owner the right (but not the obligation, the option) to purchase a specified amount of an underlying asset at a set price within a specified time.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate issued by a commercial bank or savings and loan institution.

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

COMMERCIAL PAPER: A short-term, unsecured promissory note issued by corporations for a maturity specified by the purchaser, from 1 to 366 days and sold primarily on a discount basis. Issues are marketed either through dealers or directly by the issuer. Direct issuers and dealers will generally provide a bid to repurchase these securities on the secondary market.

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

CURRENT RETURN: Considers coupon income earned, trading gains and losses actually realized, expenses paid, and miscellaneous income received.

DEALER: A dealer, as opposed to a broker, acts as a principal in the transaction, buying and selling for their own account.

DEBT SERVICE RESERVE FUND PUT AGREEMENT: A Debt Service Reserve Fund Put Agreement is a contract written between the Issuer, the Issuer's trustee, and the Put Agreement provider (a highly rated financial institution or a primary dealer), whereby the Issuer purchases U.S. Government securities (the "Reserve Securities") with debt service reserve fund moneys and has the option to "Put" all or a portion of the reserve Securities to the Provider for the original price paid in the event of a deficiency to make the scheduled debt service payments. Puts allow for investment in high yielding long-term securities while retaining the ability to liquidate the investment without risk of principal loss in the event of a default on the Bonds. In the event the Reserve Securities are liquidated, most DSRF PUT Agreements allow for the fund to be replenished at the Original Price within a specified period of time. Should the Agreement terminate for reasons other than a deficiency, a fee may be assessed by the Provider which would represent a "market" penalty. The Agreement provides that the Issuer pay a semiannual fee to the Provider on the dates that the Reserve Securities pay interest.

DELIVERY VERSUS PAYMENT/RECEIPT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with a simultaneous exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, i.e., U.S. Treasury bills.

DIVERSIFICATION: Dividing investments among a variety of securities which offer independent returns.

**DURATION:** The measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows. Duration is measured in years.

**ELIGIBLE PUBLIC DEPOSITORY:** An association which has been designated an eligible public depository by the State of Colorado and is therefore qualified to hold savings deposits of the City and County of Denver.

**EMPLOYEE:** As used in this document, the term employee means a person directly supervised and compensated by the Department of Finance of the City and County of Denver. Individuals who advise or consult with the Department of Finance or who are employees of firms which advise or consult with the Department of Finance are not employees.

**EXERCISE PRICE:** The price at which a security can be purchased (call option) or sold (put option).

**EXPORT-IMPORT BANK OF THE UNITED STATES - (Eximbank):** U.S. Government Agency, founded in 1934, wholly owned by the U.S Treasury. The obligations issued directly by Export-Import Bank carry the full faith and credit guarantee of the United States. The purpose of the Eximbank is to aid in financing U.S. exports, which it fulfills by directly financing exports, and by guaranteeing export loans made by the private sector. Eximbank is empowered to borrow and lend; to guarantee and insure loans; and to purchase or guarantee negotiable instruments, evidences of indebtedness and other securities. Although Eximbank has the authority to issue debt, the agency has financed itself internally for the past several years. However, several special-purpose corporations securitize loans that are supported by guarantees from Eximbank. It is through this securitization process that Eximbank guaranteed loans reach the fixed income market. Eximbank fully supports the repayment of loans. As with any other fully supported transaction, there are structural and legal risks to be considered, particularly the risk of a single late payment to investors, which is attributable to the claim filing requirements of an Eximbank guarantee. No issues are currently outstanding.

**FACE VALUE:** The dollar value of a security. For bonds, it is the amount paid to the holder at maturity. Also known as "par value".

**FARM CREDIT OBLIGATIONS:** Securities of the Farm Credit system, which was established under the authority of an act of Congress. The system's obligations are not guaranteed by the U.S. Treasury. However, in 1985 a line of credit to the Treasury was authorized by Congress. There are various maturities ranging from a few days to thirty years.

**FEDERAL FUNDS RATE:** The interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight.

**FEDERAL FINANCING BANK (FFB):** The FFB was established by the Federal Financing Bank Act of 1973 to consolidate and reduce the government's cost of financing a variety of federal agencies or other borrowers whose obligations are guaranteed by the U.S. Government. FFB obligations are general obligations of the U.S. Government, identical in this respect to

Treasury obligations. The FFB has no issues outstanding. To date, the Bank has chosen to finance its operations directly through the Treasury. The FFB does have the authority to issue debt in the future.

FEDERAL HOME LOAN BANKS (FHLB): Institutions of the FHLB system as established by Congress that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks to member commercial banks. The obligations of the System are not guaranteed by the U.S. Treasury. The banks operate under federal charter and are supervised by the Federal Home Loan Bank Board, as an independent federal agency. At all times, the District Banks must maintain collateral in an amount equal to the quantity of issued outstanding debt. There are various maturities ranging from a few days to thirty years.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): The Federal Home Loan Mortgage Corporation was created by Congress in 1970 to encourage the availability of mortgage credit for residential housing by maintaining an active secondary market in conventional mortgages. To some extent, the FHLMC (Freddie Mac) duplicates the activities of Fannie Mae (FNMA). However, as a special feature, it can only purchase mortgages from financial institutions that have their deposits insured by agencies of the federal government. This requirement that it deal only with regulated institutions permits the FHLMC to reduce documentation requirements on mortgage purchases and therefore operate at lower cost. The Corporation's obligations are not guaranteed by the U.S. Treasury. However, they are obligations of the FHLB system since the FHLMC is owned by the FHLB system. There are various maturities ranging from a few days to thirty years.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA is the nation's largest supplier of funds for home mortgages. The corporation was originally created in 1938 and wholly owned by the U.S. government. Subsequently, it evolved into a private stockholder-owned corporation in 1970. The corporation provides a secondary market for mortgages of primary lending institutions, similar to the FHLMC except that FNMA can purchase mortgages from mortgage banks in addition to federally insured financial institutions. Additionally, FNMA finances a large percentage of the mortgage portfolio it purchases and generates income from this portfolio in the manner of a bank. The corporation's obligations are not guaranteed by the U.S. Treasury. There are various maturities ranging from a few days to thirty years. FNMA's securities are also highly liquid and are widely accepted.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C. and 12 Regional Banks.

FIXED INCOME SECURITY: An investment that provides a return in the form of fixed periodic payments and eventual return of principal at maturity. The payments of a fixed-income security are known in advance.

FORWARD PURCHASE AGREEMENTS (FPA): A Forward Purchase Agreement, in general, represents a forward sale investment vehicle for moneys deposited during the term of the FPA. FPAs have a variety of applications, and may be used for a variety of funds such as:

- Investment of money during lag periods in open market refunding escrows.
- Funding of an entire refunding escrow.
- Investment of debt service reserve funds (rolling T-Bill FPA).

The two principal advantages of FPA's are 1) they are always funded and secured by the delivery of U.S. Government securities on a delivery versus payment basis, thus eliminating counterparty risk, and 2) the use of the FPA allows the Issuer an enhanced rate of return over short-term investment alternatives because they are priced by the investment provider like a longer-term investment as a result of the provider's ability to hedge the investment in the futures market for the life of the contract.

FUND: Independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

HIGHLY RATED MUNICIPAL SECURITIES (HRMS): HRMS are issued by governmental entities that are components of states of the United States, as established by the statutes of the individual states. Their maturities may range from one day to 30 or more years. The obligations are not guaranteed by the United States government, but may be insured by a bond insurance company or have payments guaranteed by a Letter of Credit. When credit enhanced, HRMS carry the credit rating of the insurance company or LOC provider. The Fair Market Value of the securities is subject to market interest rate fluctuations and a change in credit rating of the insurance company or issuer. HRMS are generally less liquid than other governmental securities due to a smaller universe of purchasers of these securities and the more limited volume of securities sold by individual issuers. Investment in these securities is primarily for a buy and hold strategy. Price volatility results from (a) changing market interest rates and/or (b) an insurance company, letter of credit provider and/or issuer's credit rating being upgraded or downgraded by one or more rating agencies.

INDEX: In the case of financial markets, an index is essentially an imaginary portfolio of securities representing a particular market or a portion of it. The plural of index can be either "indexes" or "indices".

INVESTMENT GRADE: A bond which is relatively safe, having a high bond credit rating such as BBB or above. (See Lehman Intermediate Bond Index)

LEHMAN INTERMEDIATE BOND INDEX: Composed of bonds that are all investment grade. Issues must have amounts outstanding in excess of \$25 million and have maturities between one and ten years.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

**LONG-TERM:** For investing, a security that matures in one year or longer.

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

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

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

**MONEY MARKET FUNDS (MMF):** MMF is a type of mutual fund with no fixed maturity date that is required by law to invest in low-risk securities. MMF are neither Federally insured nor guaranteed by the U.S. Treasury. These funds seek to preserve principal and maintain a constant value of \$1.00 per share. While investor losses are rare, it is possible for a MMF's net asset value to fall below \$1.00. MMF earns dividends that generally reflect short-term interest rates, and the amount of the dividend may be added to the share value.

**MONEY MARKET INSTRUMENTS:** Forms of debt that mature in less than one year and are very liquid.

**MUNICIPAL SECURITY:** A debt security issued by a state, municipality, county or other government entity, in order to finance its capital expenditures or for other specified purposes. Municipal bonds are exempt from federal taxes and from most state and local taxes, especially if you live in the state the bonds are issued.

**MUTUAL FUND:** An investment that gives investors access to a well-diversified portfolio of equities, bonds or other securities. Each shareholder participates in the gain or loss of the fund. (see Money Market Fund)

**NET ASSET VALUE (NAV):** The value of a fund's assets. For a mutual fund, the NAV per share usually represents the fund's market price. (see Money Market Fund)

**PAR VALUE:** The face value of a security.

**POOL:** A collection of investments for separate or multiple subfunds and/or funded projects.

**PORTFOLIO:** All securities held in the various investment pools of the City and County of Denver which are under the control of the Manager of Finance and governed by this Investment Policy.

**PORTFOLIO THEORY:** The theory of selecting an optimal combination of assets such that the investor secures the highest possible return for a given level of risk or the least possible risk for a

given level of return. Using portfolio theory, an investor assembles a group of assets on the basis of how the individual assets interact with one another. Thus, a security would be purchased not on the basis of how that security is expected to perform in isolation but rather on the basis of how that security can be expected to influence the risk and return of the investor's entire portfolio.

PREMIUM: The difference between the higher price paid for a fixed-income security and the security's face amount at issue.

PRIMARY DEALER: A group of government securities dealers that 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 oversight.

PRIME: Prime banker's acceptances and prime commercial paper shall be those securities having a minimum short-term rating of A-1, P1, and/or F-1.

PROJECTED CASH FLOWS: Estimates expected cash inflows and outflows for a period of time.

PRUDENT PERSON: The investment standard requiring trustees and portfolio managers to make financial decisions in the manner of a prudent person, e.g., with intelligence and discretion. The prudent person standard requires care in the selection of investments but does not limit investment alternatives.

PUT OPTION: A contract giving the owner the right (but not the obligation, the option) to sell a specified amount of an underlying asset at a set price within a specified time. The buyer of a put option estimates that the underlying asset will drop below the exercise price before the expiration date. (See Debt Service Reserve Fund Put Agreement)

REALIZED GAIN: A gain resulting from selling an asset at a price higher than the carrying value of that asset.

REALIZED LOSS: A loss recognized when assets are sold for a price lower than the carrying value of that asset.

REPURCHASE AGREEMENT: A financial contract through which a holder of securities sells securities to an investor with an agreement to repurchase them at original cost plus interest on a future date. The repurchase agreement "buyer" in effect "lends" the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this "loan". Repurchase agreements are illiquid, not negotiable, and there is no secondary market. In an emergency, a term repurchase agreement seller may be willing to break an agreement, but is not required to do so. Repurchase agreements are subject to counter party risk which is risk that a seller will be unable to repurchase a security.

RESOLUTION FUNDING CORPORATION (REFCORP): The Resolution Funding Corporation is a mixed-ownership government corporation established by Title V of the

Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The sole purpose of the corporation was to provide financing for the Resolution Trust Corporation, to help the government in the sale and disposition of failed thrifts and their assets. REFCORP is authorized to issue up to \$30 billion in debt obligations. Payment of principal on the debt comes from funds transferred from the Federal Home Loan Banks (and secured by Treasury securities). The legislation authorized several sources of funds to make the interest payments; the ultimate source is the Secretary of the Treasury, who will pay the Resolution Funding Corporation an amount equal to all interest payable on the bonds to the extent not paid from other sources. REFCORP debt is rated Aaa by Moody's Investors Service. REFCORP's have minimal default risk due to the fact that the interest is guaranteed by the U.S. Treasury and principal is secured by Treasury securities. There are a total of six issues outstanding with principal maturities ranging from October 2019 to April 2030. The interest coupons of the securities have been stripped and mature on various dates between now and the final maturities. There is a limited supply of REFCORPs in the market due to the fact that, when purchased, they are generally dedicated to specific liabilities and, therefore, not traded prior to their maturities.

SECONDARY MARKET: A market which purchases and sells outstanding securities issues following their initial distribution.

SECURITY: An instrument representing ownership (stocks), a debt agreement (bonds), or the rights to ownership (derivatives). It is assigned a value and traded. Examples of a security include a note, stock, bond, option, or virtually any other financial asset.

SECURITY LENDING: The collateralized lending of securities to a qualified dealer, with a negotiated fee paid to the lender.

SHORT TERM: 1. For investing, a security that matures in one year or less. 2. In accounting, a short-term asset is expected to be converted into cash in the next year, or a short-term liability is coming due in the next year.

TEMPORARY LIQUIDITY GUARANTEE PROGRAM (TLGP): In 2008, the Federal Deposit Insurance Corporation (FDIC) created this program to strengthen confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt of banks, thrifts, and certain holding companies. The newly issued debt must meet specific criteria established by the FDIC. TLGP securities can be verified by reviewing their prospectus. They are backed by the full faith and credit of the United States government.

TENNESSEE VALLEY AUTHORITY (TVA): TVA was established by an act of Congress in 1933 to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. Bonds issued by the TVA are not guaranteed by the United States. The bonds are secured by net power proceeds. Such secured debt of TVA is rated AAA/Aaa by Standard & Poor's and Moody's, respectively. There are maturities extending as long as 50 years.

TOTAL RETURN: Consists of the marking of the portfolio's securities to market and a calculation incorporating unrealized gains and losses in addition to the current return. The total

return method assumes that the entire portfolio is liquidated at a given point in time and replaced with new, current market rate securities.

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

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

TREASURY STRIPS: This instrument is composed of coupons stripped from bonds, so that an investor would take delivery of a single coupon or the corpus (principal) of a bond, and pay for it at its present value. Since January 1985, all Treasury note and bond issues with maturities of at least ten years have been transferable in their component pieces by the Federal Reserve wire system, thereby creating a generic, book-entry Treasury zero coupon. The price volatility of Strips is greater than Treasury coupon securities with comparable maturities.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAIDs): Guaranteed Notes of the USAID are underwritten pursuant to the Foreign Assistance Act of 1961 in order to carry out economic assistance programs to developing countries. Pursuant to this Act, the USAID is authorized to guarantee up to \$10 billion in principal amount of loans to the State of Israel. These Guaranteed notes (including current coupon and zero coupon notes) are backed by the full faith and credit guarantee of the United States of America, acting through USAID, and also constitute full faith and credit obligations of the State of Israel. Although the Guaranteed Notes of the USAID are full faith and credit obligations, there may be up to a 3-day delay in payment on the USAIDs in the event of a default of the original issuer of the loans (i.e. Israel). When approved for City investment, there were 7 series outstanding in the aggregate amount of approximately \$12 billion, including both current coupon and zero coupon guaranteed notes, extending to August 15, 2025.

U.S. GOVERNMENT OBLIGATIONS: Direct obligations of the government of the United States. Both principal and interest are unconditionally guaranteed by the United States government. There are regular auctions of Treasury securities with various maturities. The securities are readily available and marketable in the secondary market. Price volatility results from changing market interest rates, which normally increase for securities with longer durations.

UNREALIZED GAIN: A profit on the books of the owner that results from holding on to an asset rather than selling it and realizing the gain:  $\text{Market Value} - \text{Book Value} = \text{Unrealized Gain/(Loss)}$

UNREALIZED LOSS: A loss on the books of the owner that results from holding onto an asset rather than selling it and taking the loss:  $\text{Market Value} - \text{Book Value} = \text{Unrealized Gain/(Loss)}$

WHEN ISSUED TREASURY SECURITIES: New issues of government obligations are offered on a when-issued basis, that is, delivery and payment for securities occur up to 21 days after the date of the transaction. The payment obligation and the yield that will be received on the securities are fixed at the time the buyer enters into the commitment. These securities may be sold before the settlement date, if it is deemed advisable as a matter of investment strategy.

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