ATTACHMENT A

2-1-4: INVESTMENT POLICY:

A. Governing Authority: All investments for the town shall be made in accordance with the Colorado Revised Statutes including: Colorado Revised Statutes section 11-10.5-101 et seq., public deposit protection act; Colorado Revised Statutes section 11-47-101 et seq., savings and loan association public deposit protection act; Colorado Revised Statutes section 15-1-304 et seq., prudent investor rule; Colorado Revised Statutes section 24-75-601 et seq., legal investments for governmental units; Colorado Revised Statutes section 24-75-603, depositories; and Colorado Revised Statutes section 24-75-702~~1~~ et seq., local government pooling. Any revisions or extensions of these sections of the Colorado Revised Statutes will be assumed to be part of this investment policy immediately upon enactment.

B. Scope:

1. Generally: This policy applies to the investment of all funds, excluding the investment of employees' retirement funds. Proceeds from bond issues shall be covered by a separate policy.

2. Pooling Of Funds: Except for cash in certain restricted and special funds, the town of Erie will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

C. General Objectives: The primary objectives, in priority order, of investment activities shall be legality, safety, liquidity, and yield:

1. Safety: Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the conservation of capital in the overall portfolio. The objective will be to moderate credit risk, interest rate risk and counterparty risk associated with the investment of public funds.

a. Credit Risk: The town of Erie will manage credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

(1) Limiting investments to the types of securities listed in subsection G of this section.

(2) Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk: The town of Erie will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

(1) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

(2) Investing operating funds primarily in shorter term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see subsection H of this section).

(3.) Maintaining at least 10% of its total portfolio instruments maturing in 90 days or less to provide sufficient liquidity for expected disbursements. Portfolio instruments are inclusive of Local Government Investment Pool and Money Market fund balances.

(4.) The maximum percent of callable securities (does not include "make whole call" securities as defined in the Glossary) in the portfolio will be 20%.

(5) The duration of the portfolio will at all times be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the town based on the town's investment objectives, constraints and risk tolerances.

c. Counterparty Risk: The town will manage other forms of risk such as counterparty, which is the risk resulting from engaging in transactions with other parties, by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the town of Erie will do business in accordance with subsection E of this section.

2. Liquidity: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since not all possible cash demands can be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio shall be placed in money market mutual funds, demand deposit accounts, overnight repurchase agreements, overnight commercial paper and other allowable securities, or local government investment pools, which offer same or next day liquidity for short term funds.

3. Yield: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

a. A security with declining credit may be sold early to minimize loss of principal.

b. A security swap would improve the quality, yield, or target duration in the portfolio.

c. Liquidity needs of the portfolio require that the security be sold.

D. Standards Of Care:

1. Prudence:

a. The standard of prudence to be used for managing the town's assets shall be Colorado Revised Statutes section 15-1-304 which states:

In acquiring, investing, reinvesting, exchanging, retaining, selling, and managing the funds and investments for the benefit of the Town, fiduciaries shall be required to have in mind the responsibilities which are attached to such offices and the size, nature, and needs of the funds and investments entrusted to their care and shall exercise the judgment and care, under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of the funds and investments of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of capital.

b. Within the limitations of the foregoing standards, fiduciaries may acquire and retain funds and investments as authorized by the town in this investment policy, which persons of prudence, discretion, and intelligence would acquire or retain for the account of another.

c. Investment staff acting in accordance with written procedures, the investment policy, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion to the town administrator and appropriate action is taken to control adverse developments.

2. Ethics And Conflicts Of Interest: Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the town of Erie.

3. Delegation Of Authority: Authority to manage the investment program is granted to the finance director, hereinafter referred to as "investment officer". Responsibility for the operation of the investment program is hereby delegated to

the investment officer, who shall act in accordance with ~~established written procedures and~~ internal controls for the operation of the investment program consistent with this investment policy. ~~Procedures~~ The investment policy should include references to: safekeeping, delivery versus payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

The town may engage the support services of advisors, consultants and professionals in regard to its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the town's financial resources. Investment Advisors shall be registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. Advisors shall be selected using the town's authorized purchasing procedures for selection of professional services. Advisors shall be subject to the provisions of this Policy, and shall not, under any circumstances, take custody of the town's funds or securities.

E. Authorized Financial Institutions, Depositories, And Broker/Dealers:

1. A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of $10,000,000.00 and at least 5 years of operation). These may include "primary" dealers or regional dealers that qualify under ~~s~~Securities and ~~e~~Exchange ~~c~~Commission (SEC) rule 15C3-1 (uniform net capital rule).

2. All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

   a. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines.

   b. Proof of ~~National Association of Securities Dealers~~ Financial Industry Regulatory Authority (~~NASD~~FINRA) certification (not applicable to certificate of deposit counterparties).

   c. Proof of state registration.

   d. Certification of having ~~read and understood and agreeing to comply with~~ reviewed the Colorado Revised Statutes 24-75-601, et seq.and the town of Erie's investment policy.

   e. Evidence of adequate insurance coverage.

3. An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer.

4. Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the town, except where the town

utilizes an external investment advisor in which case the town may rely on the advisor for selection. If the town uses an external investment advisor, the advisor will conduct due diligence of qualified financial institutions and broker dealers and share such information with the investment officer.

F. Safekeeping And Custody:

1. Delivery Versus Payment: All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

2. Trust Custody: Securities shall be held by a centralized independent third party custodian trustee selected by the entity as evidenced by perfected interest in the securities in the town of Erie's name.

3. Internal Controls:

a. The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the town of Erie are protected from loss, theft or misuse. Details of the internal controls system ~~shall be documented in an investment procedures manual and shall be reviewed and updated annually~~are documented in this investment policy. 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 requires estimates and judgments by management.

b. The internal controls structure ~~shall address~~ outlined in this investment policy include the following points:

(1) Control of collusion.

(2) Separation of transaction authority from accounting and record keeping.

(3) Trust custody.

(4) Avoidance of physical delivery securities.

(5) Clear delegation of authority to subordinate staff members.

(6) Written confirmation of transactions for investments and wire transfers.

(7) Dual authorizations of wire transfers.

(8) Development of a wire transfer agreement with the lead bank and third party custodian.

~~c. Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures or, alternatively, compliance should be assured through the town of Erie's annual independent audit.~~

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G. Suitable And Authorized Investments:

1. Investment Types: Consistent with the GFOA policy statement on state and local laws concerning investment practices, the following investments will be permitted by this policy and are those defined by state and local law where applicable:

The credit quality of any eligible investment will be evaluated using the following Nationally Recognized Statistical Rating Organization (NRSROs): Standard & Poor's, Moody's or Fitch (or any of their successor agencies).

If securities owned by the town are downgraded by a nationally recognized statistical ratings organization (NRSO) to a level below the quality required by this Investment Policy, it will be the town's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio. If a security is downgraded, the investment officer will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.

a. U.S. treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available;

- Maturities shall not exceed five years from the date of trade settlement.
- There are no limits on the dollar amount or percentage that the town may invest in U.S. treasuries.

b. U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;

- Maturities shall not exceed five years from the date of trade settlement.
- No more than 75% of the total portfolio may be invested in federal agency and instrumentality securities.
- No more than 25% of the total portfolio may be invested in any single agency/instrumentality issuer.

c. Certificates of deposit and other evidences of deposit at financial institutions;

- Maturities shall not exceed five years from the date of trade settlement.
- Certificates of deposit that exceed FDIC insurance limits shall be collateralized as required by the Public Deposit Protection Act or the Savings and Loan Association Public Deposit Protection Act.
- No more than 30% of the total portfolio may be invested in certificates of deposit.
- No more than 5% of the total portfolio may be invested in any one issuer.

d. Corporate or Bank Securities denominated in United States dollars.

- Maturities shall not exceed three years from the date of trade settlement.
- At the time of purchase must carry at least two credit ratings from the above mentioned NRSROs and are not rated below:
  i. “A1, P1, or F1” or their equivalents if the security is a money market instrument such as commercial paper or bankers' acceptance; or
  ii. “AA- or Aa3” or their equivalents if the security is any other kind of security.
- At no time shall the book value of investments in corporate and bank securities total more than 50% of the total book value of the town's portfolio with no greater exposure than 5% to any single issuer.
- No subordinated security may be purchased.
- No security issued by a corporation or bank that is not organized and operated within the United States may be purchased without authorization by the town board to invest in such securities.

e. Municipal Securities of state or local governments with a maturity not exceeding five years from the date of trade settlement.

- General obligation and revenue obligation securities of this state or any political subdivision of this state must be rated at the time of purchase at least “A” or its equivalent by at least two NRSROs.
- General obligation and revenue obligation securities of any other state or political subdivision of any other state must be rated at the time of purchase at least “AA” or its equivalent by at least two NRSROs.
- No more than 30% of the total portfolio may be invested in municipal securities.
- No more than 5% of the total portfolio may be invested in the securities of any single issuer.

~~d. Bankers' acceptances;~~

~~e. Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;f. Investment grade obligations of state, provincial and local governments and public authorities;~~

~~g~~f. Repurchase agreements ~~whose underlying purchased securities consist of the aforementioned instruments;~~ collateralized with marketable U.S. Treasury, Agency or instrumentality securities listed in items a& b above and maintained at a market value plus accrued interest of at least 102% of the dollar value of the repurchase agreement.

- Repurchase agreements are subject to a Master Repurchase Agreement between the town and the provider of the repurchase agreement. The Master Repurchase Agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA).

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- Repurchase agreements shall be entered into only with dealers who have executed an approved Master Repurchase Agreement with the town and who are recognized as primary dealers with the Federal Reserve Bank of New York or have a primary dealer within their holding company structure.
- For the purpose of this section, the term collateral shall mean purchased securities under the terms of the Master Repurchase Agreement and shall be delivered versus payment to the town's custodian bank for safekeeping on behalf of the town.
- The collateral for the repurchase agreement may have a maturity in excess of five years.
- The market value plus accrued interest of the collateral securities shall be marked to market no less frequently than weekly.
- The town may utilize Tri-party Repurchase Agreements provided that the town is satisfied that it has a perfected interest in the securities used as collateral and that the town has a properly executed Tri-party Agreement with both the counterparty and custodian bank.
- The maximum maturity of the repurchase agreement shall not exceed one year.
- No more than 50% of the total portfolio may be invested in repurchase agreements.
- No more than 5% of the total portfolio may be invested in any one issuer.

g. Money market mutual funds ~~regulated by the securities and exchange commission and whose portfolios consist only of dollar denominated securities; and~~ registered under the Investment Company Act of 1940, provided they:

- Have a constant daily net asset value per share of $1.00;
- Are "no load' (i.e., no commission or fee shall be charged on purchases or sales of shares) and charge no 12b1 fees;
- Limit assets of the fund to securities authorized by state statute;
- Have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940;
- Have a rating of AAAm by Standard and Poor's, or AAA by Moody's, or AAA/V-1+ by Fitch Investors Service;
- There are no limits on the dollar amount or percentage that the town may invest in money market mutual funds; and
- No more than 35% of the total portfolio may be invested in any one fund.

h. Local government investment pools authorized under C.R.S. § 24-75-701, et seq., provided they:

- Have a constant daily net asset value per share of $1.00;
- Are "no-load" (i.e., no commission or fees shall be charged on purchases or sales of shares) and charge no 12b1 fees;
- Limit assets of the fund to securities authorized by state statute;

- Have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; ~~and~~
- Have a rating of AAAm by Standard and Poor's or AAA by Moody's or AAA/V-1+ by Fitch Investors Service;
- There are no limits on the dollar amount or percentage that the town may invest in local government investment pools; and
- No more than 35% of the total portfolio may be invested in any one pool.~~,~~

i. Supranationals, provided that:

- Issues are U.S. dollar denominated senior unsecured unsubordinated obligations or unconditionally guaranteed by the World Bank.
- The securities are rated at the time of purchase at least "AA" or its equivalent by an NRSRO.
- No more than 30% of the total portfolio may be invested in these securities.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

2. Collateralization: Public deposit protection act collateralization will be required on all demand deposit accounts, including checking accounts and nonnegotiable certificates of deposit.

H. Investment Parameters:

1. Diversification: The composition of the portfolio will vary according to market opportunities, but shall not vary beyond the following limitations:

Instrument	Percent Of Portfolio Allowed	Maximum Percent Per Issuer
U.S. treasuries	100	100
U.S. agencies/instrumentalities	75	~~3~~25
Repurchase agreements	50	5
CDs/Term bank deposits	~~5~~30	~~10~~5
Municipal Securities	30	5
Money market account and investment pools	100	35
~~All other allowable securities~~Corporate Securities	~~25~~50	~~10~~5
Supranationals	30	5

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2. Maximum Maturities: To the extent possible, the town of Erie shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the town of Erie will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances. The weighted average maturity of the portfolio invested under the scope of this policy shall not exceed three (3) years.

3. Competitive Bids: The town shall obtain competitive bids from at least ~~two~~ three (~~2~~3) brokers or financial institutions on all purchases of investment instruments purchased on the secondary market if such purchase is transacted directly by the town. The town may also hire a third party investment advisor charged with the duty to obtain competitive pricing on all securities recommended to the town.

Selection of broker/dealers used by an external investment advisor retained by the town will be at the sole discretion of the advisor. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

The town may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as the paper meets the criteria outlined in item d of the section “G” titled “Suitable and Authorized Investments”.

I. Reporting:

1. Methods: The investment officer shall prepare an investment ~~monthly~~ report at least annually, including a management summary, that provides an analysis of the status of the current investment portfolio, and the individual transactions executed ~~over the last month~~. This management summary will be prepared in a manner which will allow the town of Erie to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the town administrator and the town board. The report will include the following:

    a. Listing of individual securities held at the end of the reporting period.

    b. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the par, cost and market value of securities. ~~over one year duration that are not intended to be held until maturity (in accordance with governmental accounting standards board [GASB] requirements).~~

    c. Time-weighted total rate of return and ~~A~~average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.

    d. Listing of investment by maturity date.

    e. Percentage of the total portfolio which each type of investment represents.

f. Average maturity of the portfolio and modified duration of the portfolio.

g. Average portfolio credit quality.

h. A statement of compliance with the investment policy.

2. Performance Standards: The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio. The benchmark shall be readily available market indices.

3. Market Value: The market value of the portfolio shall be calculated monthly and a statement of the market value of the portfolio shall be issued monthly. In defining market value, considerations should be given to government accounting standard board pronouncements.

~~J~~~~K~~J. Amendments: This investment policy shall be reviewed on an annual basis by the finance director. Any changes to this investment policy must be approved by the finance director and the town board of trustees. (Ord. 45-2005, 12-13-2005)

Glossary of Investment Terms

AGENCIES. Shorthand market terminology for any obligation issued by *a government-sponsored entity (GSE)*, or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "FreddieMac" issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "FannieMae," issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as "GinnieMae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASKED. The price at which a seller offers to sell a security.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER'S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BID. The price at which a buyer offers to buy a security.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the Colorado institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

Collateralized Mortgage Obligations (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

Commercial Paper. The short-term unsecured debt of corporations.

Cost Yield. The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

Coupon. The rate of return at which interest is paid on a bond.

Credit Risk. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

Current Yield. The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

Dealer. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

Debenture. A bond secured only by the general credit of the issuer.

Delivery vs. Payment (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

Derivative. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

Discount. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

Diversification. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

Duration. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See modified duration).

FEDERAL FUNDS RATE. The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

FEDERAL OPEN MARKET COMMITTEE. A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools offered to public entities for the investment of public funds, organized as statutory Trust funds, such as Colotrust and CSAFE. These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MARKING TO MARKET. The process of posting current market values for securities in a portfolio.

MATURITY. The final date upon which the principal of a security becomes due and payable.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATINGS ORGANIZATION (NRSRO).

A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CD. A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

PREMIUM. The difference between the par value of a bond and the cost of the bond, when the cost is above par.

PREPAYMENT SPEED. A measure of how quickly principal is repaid to investors in mortgage securities.

PREPAYMENT WINDOW. The time period over which principal repayments will be received on mortgage securities at a specified prepayment speed.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON RULE. A standard of responsibility which applies to fiduciaries. In Colorado, the rule is defined in Colorado Revised Statutes section 15-1-304, which states: "fiduciaries…shall exercise the judgment and care, under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of the funds and investments of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of capital."

REALIZED YIELD. The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

REGIONAL DEALER. A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

VOLATILITY. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.