Children & Families
Commission of Orange County

Agenda Item No. 1
January 4, 2012 Meeting

DATE: December 28, 2011

TO: Children and Families Commission of Orange County

FROM: Michael M. Ruane, Executive Director

SUBJECT: Commission Investment Policy Annual Review and Delegation of Investment Authority to Commission Treasurer

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SUMMARY:
The Children and Families Commission of Orange County annually reviews the Commission's Investment Policy Statement and the delegation of the investment authority to its designated Treasurer. This item includes the Investment Policy Statement for Fiscal Year 2011-12 and requests the annual delegation of investment authority to the Commission Treasurer.

1. Current Investment Policy Statement – Fiscal Year 2011-2012
The Commission's Investment Oversight Committee was established in 2006 to ensure oversight and public transparency regarding the investment structure and activities related to the investment of available Commission funds. In previous years, the five-member Committee reviewed the Commission's Investment Policy Statement and investment program. The Investment Policy Statement for Fiscal Year 2011-12 and the status of the Commission's investments, which are managed by the Orange County Treasurer, are unchanged and do not require Committee review. Pursuant to Government Code Section 53646, the Investment Policy Statement (Attachment 1) is included for Commission consideration at a public meeting.

2. Relationship to County Investment Policy Statement – Credit Downgrade of US Government Debt
The Commission Investment Policy Statement is currently more restrictive then the County Treasurer's adopted statement due to its recent amendment to address the credit downgrade for US Government Debt. These amendments were approved by the Board of Supervisors at its September 13, 2011 meeting, and eliminated the credit rating restriction on US Government Debt. It should be noted that the provisions of the California Government Code Section relating to authorized public investments and their restrictions do not have credit rating restrictions for US Debt.

Since the Orange County Investment Pool is an authorized investment for 100% of Commission funds (Section 1.K - page 9 of Policy Statement), there was no need to revise the Commission Policy Statement to separately address the elimination of credit rating restrictions for US Government Debt. Instead, it is recommended that this item and the overall management of the Commission investment program be addressed as part of the comprehensive review outlined in Section 4 below.

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3. Annual Delegation of Investment Authority to Commission Treasurer
Pursuant to Government Code Section 53607, the Commission may delegate the investment authority to its designated Treasurer for a one-year period and can renew the delegation of authority each fiscal year. Beginning in November 2005, the Commission designated the Chief Operations Officer to serve as the Commission's Treasurer, and delegated investment authority to the Treasurer. Due to planned staff transition, it is recommended that the Commission designate the Executive Director as the Commission Treasurer with authority to manage, deposit, and invest Commission funds, not required for the immediate needs of the Commission, for the balance of FY 2011/12 in accordance with Government Code Section 53607.

4. Review of Commission Investment Program
Currently, the Commission does not operate a separate investment program as it has in the past for its long-term investments. All Commission funds are managed as part of the Orange County Investment Pool. At this time, it is recommended that a comprehensive review be completed in conjunction with the proposed FY 2012-2013 Business Plan which includes:

1. Consideration of the formal role of County Treasurer as manager of the Commission investments.
2. Investment Program Oversight and Reporting.
3. Associated revisions to the Commission Investment Policy Statement, including the revisions related to US Government Debt.

The process outlined above will ensure that all legal and fiscal management issues are addressed as part of the updated Investment Policy Statement.

STRATEGIC PLAN & FISCAL SUMMARY:
The recommended actions presented in this staff report have been reviewed in relation to the Commission's Strategic Plan and are consistent with all strategic goals.

PRIOR COMMISSION ACTION:
- April 2011 - Considered the Investment Policy Statement for FY 2011-2012, as recommended by the Investment Oversight Committee, and delegated annual investment authority to the Commission Treasurer.

RECOMMENDED ACTIONS:
1. Receive and file staff report and Investment Policy Statement for FY 2011-2012.
2. Designate Commission Executive Director as Commission Treasurer and approve the delegation of investment authority to Commission Treasurer for remainder of FY 2011-2012.
3. Direct Commission Treasurer to continue to report Commission investment transactions and activity in the Quarterly Investment and Financial Highlights Reports submitted to the Commission.
4. Direct staff to include proposed revisions to Commission Investment Program management in the proposed Business Plan for FY 2012-2013.

ATTACHMENT:

1. Annual Investment Policy Statement, FY 2011-2012

Contact: Michael Ruane

Attachment 1

Investment Policy Statement
FY 2011-2012

Children & Families
Commission of Orange County

January 4, 2012

CHILDREN & FAMILIES COMMISISON OF ORANGE COUNTY

ANNUAL INVESTMENT POLICY STATEMENT FY 2011-2012

TABLE OF CONTENTS

CHILDREN & FAMILIES COMMISISON OF ORANGE COUNTY
ANNUAL INVESTMENT POLICY STATEMENT
FY 2011-2012

INTRODUCTION

The Children and Families Commission of Orange County ("the Commission") Annual Investment Policy Statement (the "Policy") provides for the prudent investment of the Commission's funds and the effective management of investment activities. The Commission's Board of Directors shall adopt the Commission's Policy annually at a public hearing. Any future modifications made thereto must be approved by a resolution of the Commission's Board of Directors.

I. POLICY

It is the Policy of the Commission to invest its funds in a manner which will provide the maximum safety of principal, liquidity and yield while conforming to all applicable statutes and resolutions governing the investment of public funds.

II. SCOPE

This Policy applies to all financial assets of the Commission that are not immediately required to fund the Commission's operations and expenditures. These funds are accounted for in the Commission's Annual Operating Budget and Annual Financial Statements.

III. PRUDENCE

The Commission's investment officers shall use the "prudent investor" standard as referenced in Government Code Section 53600.2 and 27000.3 which shall be applied in the context of managing the Commission's investments. The Commission's investment officers shall act in accordance with the Policy, exercise due diligence, report in a timely fashion and implement appropriate controls to mitigate adverse developments.

When investing, reinvesting, or managing public funds, the Commission's investment officers shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the Commission that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of local agency of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Commission.

IV. DELEGATION OF AUTHORITY

The Commission has designated the Chief Operations Officer to act as Treasurer of the Commission. In this capacity, the Treasurer is charged with fulfilling the duties and responsibilities required in the investment of the Commission's funds and insuring compliance with this Policy, including all investment management and reporting requirements. The Treasurer is delegated the authority to manage, deposit and invest funds of the Commission, not required for the immediate needs of the Commission, in accordance with this Policy and all applicable provisions of law. The Treasurer shall develop and enforce written procedures to fully implement this Policy in accordance with this delegation of authority, and shall periodically report to the Commission in accordance with the requirements of law and this Policy.

The Orange County Treasurer shall accept the direction of the Chief Operations Officer acting in the capacity as Treasurer, and in his absence, the Director of Finance, directing the

Orange County Treasurer to invest funds on behalf of the Commission, consistent with the restrictions and limits of this Policy.

Until changed by the Commission's Board of Directors, this Policy restricts the investment of Commission funds in Authorized Investments to investments in the Orange County Investment Pool Money Market Fund and the Specific Long-Term Investment Program as described below:

Orange County Investment Pool (OCIP) Money Market Fund
Pursuant to the Support Services Agreement between the Commission and the County of Orange, the Treasurer may direct the Orange County Treasurer to invest monies not immediately required to fund Commission expenditures in the OCIP's Money Market Fund in accordance with the Orange County Treasurer's Investment Policy Statement (Exhibit 1) as it may be revised from time to time.

The Treasurer shall match investments with anticipated cash flow requirements and anticipated liquidity needs.

Specific Long-Term Investment Program (SL-TIP)
The Treasurer shall estimate the Commission's funds that can be prudently designated as "Sustainability Funds" and, thus, invested for use in future fiscal years. Pursuant to the "Agreement for Specific Long-Term Investment Program for the Children and Families Commission of Orange County," the Treasurer may direct the Orange County Treasurer to invest Sustainability Funds in the SL-TIP in accordance with this Policy, as it may be revised from time to time.

The Treasurer shall match investments with anticipated cash flow requirements and anticipated liquidity needs. The Treasurer shall not invest in securities maturing more than five years from the date of purchase unless specifically approved by the Commission Board of Directors in accordance with applicable law.

The Treasurer will consult with the Orange County Treasurer and the Commission's Financial Advisors, if any, about appropriate Authorized Investments for the SL-TIP and then will submit recommendations to the Orange County Treasurer.

V. OBJECTIVES

The primary objectives, in priority order, of the Commission's investment activities shall be safety of principal, liquidity, and yield.

1. **SAFETY OF PRINCIPAL**
   Safety of principal and liquidity shall be the foremost objectives of the Treasurer. The Treasurer shall seek to preserve principal and minimize capital losses by mitigating credit risk and market risk as follows:

   Credit Risk: Defined as an issuer(s) ability and willingness to repay interest and principal. Credit risk shall be mitigated by diversifying the investments among issues and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal.

   Market Risk: Defined as the risk of market value fluctuations due to changes in the general level of interest rates.

2. **LIQUIDITY**
   Liquidity refers to the recurring maturity of a portion of the investments, as well as the ability to sell an investment at any given moment with a minimal chance of principal loss. The OCIP

Money Market Fund's investments will be substantially liquid for the purpose of meeting all operating requirements and reasonably anticipated cash flow needs.

3. **YIELD**
   Yield refers to the objective of attaining a competitive rate of return commensurate with the risk profile and cash flow characteristics of an investment throughout budgetary and economic cycles. Although the Treasurer may employ certain indices to gauge the Commission's investment rate of return, such indices shall be used solely for comparative purposes and do not constitute a warranty or guarantee or expectation of actual portfolio performance.

VI. AUTHORIZED INVESTMENTS

The Commission's funds may only be invested in the following Authorized Investments including the Orange County Investment Pool Money Market Fund.

1. **U. S. TREASURY SECURITIES**
   United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest.

2. **U. S. GOVERNMENT AGENCY SECURITIES**
   Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise.

3. **COMMERCIAL PAPER**
   Eligible commercial paper shall not exceed 270 days maturity. For Asset-backed commercial paper, the Liquidity Provider must also be an approved issuer and subject to the issuer diversification requirements of the Orange County Treasurer.

   - **Requirements for the Extended Fund:**
     Issuers must be a corporation with total assets in excess of $500 million dollars, or be organized within the United States as a special purpose corporation, trust, or limited liability company, having program-wide credit enhancements such as over-collateralization, letters of credit or surety bonds.

   - **Requirements for the Money Market Fund:**
     Issuers must be organized and operating in the United States as a general corporation and have total assets in excess of $500 million.

4. **NEGOTIABLE CERTIFICATES OF DEPOSIT**
   Negotiable certificates of deposit issued by a U.S. national or state-chartered bank or state or federal association (as defined by Section 5102 of the California Financial Code) or by a state-licensed branch of a foreign bank. The Money Market Fund is authorized to purchase U.S. Dollar denominated certificates of deposit issued from the London, England branch of foreign and U.S. domestic banks (Euro certificates of deposit). Eligible foreign banks must have branches or agencies in the U.S.

5. **REPURCHASE AGREEMENTS**
   Investments in repurchase agreements may be made on any securities authorized herein. Agreements are subject to California Government Code Section 53601.7 and must comply with the delivery requirements and the maturity provision from Section 53601.

Investments in repurchase agreements for the purpose of this Policy (as defined by section 53601 and 53601.7(e) (8) of the California Government Code) means a purchase of securities by the Orange County Treasurer pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Treasurer by book entry, physical delivery, or by third party custodial agreement. The final maturity of repurchase agreements shall not exceed one year. The term "securities," for the purpose of repurchase agreements, shall mean securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a Securities Industry Association (SIA) agreement must be completed and signed by all parties involved. The Orange County Treasurer will maintain a signed copy of the agreement. Repurchase agreements are required to be collateralized by securities or cash authorized under California Government Code Section 53601.7(e). In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the collateralization level will be a minimum of 102% of market value of the principal and accrued interest and shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

Collateral will be limited to US Treasury and US Government Agency securities. For compliance purposes, the investment restrictions from Section VIII.2 herein consider U.S. Treasury and/or US Government Agency collateral exempt from issuer limits. Collateral will be held by an independent third party with whom the Treasurer has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to and retained by the Orange County Treasurer. The Orange County Treasurer retains the right to substitute or grant substitutions of collateral.

6. **BANKERS ACCEPTANCES**
Primarily used to finance international trade, banker's acceptances are time drafts (bills of exchange) drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity. Issuing banks must be rated by at least two Nationally Recognized Statistical Rating Agencies (NRSRO).

7. **MONEY MARKET MUTUAL FUNDS**
Shares of beneficial interest issued by diversified management companies, also known as mutual funds, invest in the securities and obligations authorized by California Government Code Sections 53601(k) (for the Extended Fund) or 53601.7(e) (10) (for the Money Market Fund). Mutual funds are not required to conform to the restrictions detailed in this Policy. At a minimum, approved mutual funds will be registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.) and shall have met either of the following criteria:

   a. Attained the highest ranking or the highest letter and numerical rating provided by no less than two Nationally Recognized Statistical Rating Agencies (NRSRO).

   b. Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations authorized by California Government Code Section 53601 subdivisions (a) to (j) and (m) to (n) and with assets under management in excess of $500 million.

8. **MUNICIPAL DEBT**
Such instruments are defined as being issued by a local or state agency, including:

a. Bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.

b. Registered state warrants or treasury notes or bonds, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of a state.

c. Bonds, notes, warrants, or other evidences of indebtedness of any local agency within a state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

9. **ASSET-BACKED SECURITIES**
Securities eligible for investment under this section shall be issued by an issuer whose unsecured debt is rated no less than "A," and the issue must be rated "AAA" by at least two NRSROs. Securities shall have a maximum remaining maturity of five years.

- The allowable types of Asset-backed securities include the following:
- U.S. Government Agency Mortgage pass-through securities
- Collateralized Mortgage Obligations (CMO)
- Private label mortgage-backed or other pass-through securities
- Equipment lease-backed certificates
- Consumer receivable-backed bonds
- Auto loan receivable-backed bonds

10. **MEDIUM-TERM NOTES**
Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of not more than 397 days for the Money Market Fund and five years for the Specific Long-Term Investment Program. Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

11. **ORANGE COUNTY INVESTMENT POOL (OCIP)**
The OCIP is a pooled fund managed by the Orange County Treasurer and is comprised of two funds, the Money Market Fund and Extended Fund. The Money Market Fund is invested in cash equivalent securities and is based on the investment guidelines detailed in the Code section 53601.7, which parallels Rule 2a-7. The Extended Fund is for cash requirements past one year and is based on the Code Sections 53601 and 53635.

VII. INVESTMENT RESTRICTIONS

1. CREDIT RATINGS

Credit rating requirements set forth below will be applied at the time of purchase of security. In the event of split-rated securities, the lowest ratings will be used. A subsequent downgrade in a security's credit rating will not constitute a violation of the Policy. Securities which are downgraded below the minimum acceptable rating levels must be reviewed for possible sale within a reasonable amount of time.

The credit ratings referred to below must be assigned by a Nationally Recognized Statistical Rating Organization (NRSRO).

a. Short-term debt – (two of the following)

"A-1" or "SP-1"	Standard & Poor's Corporation (S&P)
"P-1" or "MIG 1/VMIG 1"	Moody's Investors Service, Inc. (Moody's)
"F1"	Fitch Ratings (Fitch)

An issuer of short-term debt must have no less than an "A" on long-term debt, if any.

b. Long-term debt

- Money Market Fund - shall be rated no less than "A" by at least two NRSROs.
- Extended Fund - shall be rated no less than "AA" by at least two NRSROs.

  "AAA" up to 100% of the par value of assets may be invested in securities with this rating

  "AA" up to 50% of the par value of assets may be invested in securities with at least one of this rating

- These ratios will be determined based on the month-end portfolio market value.
- If an issuer of long-term debt has a short-term rating, then it may not be less than A-1/SP-1 or P-1/MIG1/VMIG1 or F1.

c. Counterparties

Repurchase Agreement counterparties shall have a minimum short-term rating, or counterparty rating, of no less than A-1 or equivalent by a Nationally Recognized Statistical Rating Agency (NRSRO) and have capital of no less than $500 million.

d. Credit Watch

Any issuer that has been placed on "Credit Watch-Negative" by NRSRO will be removed from our approved list unless the following criteria are met:

The issuer has (a) an A-1+ or F1+ short-term rating; or (b) at least an AA or Aa2 long-term rating.

VIII. DIVERSIFICATION AND MATURITY RESTRICTIONS

The Commission's investments shall be diversified to minimize the risk of loss resulting in over concentration of assets in a specific maturity, specific issuer, or a specific class of securities.

1. AUTHORIZED INVESTMENTS

Investment Type		% of Market Value
A.	U.S Treasuries and securities having principal and/or interest guaranteed by the U.S government	up to 100%
B.	U.S. Government agencies, and government sponsored enterprises	up to 100%
C.	Commercial Paper	No more than 25%
D.	Negotiable Certificates of Deposit	No more that 30%
E.	Repurchase Agreements	No more than 40%
F.	Bankers' Acceptances	No more than 40%
G.	Money Market Mutual Funds	No more than 20%
H.	Municipal Debt	No more than 30%
I.	Asset-Backed Securities	No more than 10%
J.	Medium-Term Notes	No more than 30%
K.	Orange County Investment Pool	Up to 100%

2. ISSUER CONCENTRATION

- No more than 5% of an investment's market value may be invested in securities of any one issuer. U.S. Treasury securities are exempt from this restriction.

- No more than 30% of an investment's market value may be invested in securities of any one U.S. Government Agency, or U.S. government sponsored enterprise.

- No more than 10% may be invested in any one Money Market Mutual Fund.

3. MATURITY

- The maximum maturity of any investment purchased will be:

a.	OCIP Money Market Fund	13 months (397 days)
b.	SL-TIP	5 years consistent with the Orange County Treasurer's Investment Policy Statement

- For purposes of calculating final maturity, the earlier of final maturity date or mandatory put or tender option date may be used.

- For purposes of calculating the weighted average maturity of an investment, the maturity of a variable-rate security may be considered its next interest rate reset date, if there is a reasonable expectation that the security will maintain an approximate value of par upon each adjustment of the security's interest rate at any time until final maturity.

- The Orange County Treasurer may not invest over the maximum maturity criteria or weighted average maturity limitations. The Orange County Treasurer's monthly management report will specify any investing under the above provision.

4. SPECIFIC LONG-TERM INVESTMENT PROGRAM

The Treasurer shall direct the Orange County Treasurer to invest funds in the Specific Long-Term Investment Program in Authorized Investments as defined herein at appropriate intervals and in appropriate amounts such as to provide for a laddered investment structure that reflects the Commission's investment strategy.

IX. PROHIBITED TRANSACTIONS

At the time of purchase, all permitted investments shall conform in all respects with this Policy and with California Government Code Sections 53601, 53601.1, 53601.2, 53601.6, 53601.7, 53631.5, and 53635 as may be amended from time to time. No investment prohibited by California Government Code shall be permitted herein.

Any investment transactions, credit risk criterion, percentage limitations or market valuation that are not in compliance with this Policy **at time of purchase** must be documented and approved by the Orange County Treasurer in writing. Thereafter, action shall be taken by the Orange County Treasurer to correct such matter as soon as practical. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction.

The following transactions are prohibited:

1. Borrowing for investment purposes ("Leverage").

2. Reverse Repurchase Agreements, as defined by California Government Code Section 53601.7(e) (8) or otherwise.

3. Structured Notes (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities, event-linked securities, structured investment vehicles (SIV)). This includes all floating-rate, adjustable-rate or variable-rate securities in which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.

   Simple "floating rate notes," whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate or LIBOR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are exempt from this definition. Additionally, U.S. Treasury and Agency zero coupon bonds, U.S. Treasury and Agency strips, Resolution Funding Corporation (REFCORP) strips or other callable securities which otherwise meet the quality, maturity and percent limitations assigned to their respective security category, are exempt from this section.

4. Derivatives (e.g. options, futures, swaps, swaptions, spreads, straddles, caps, floors, collars) shall be prohibited.

X. ETHICS AND CONFLICT OF INTEREST

Commission investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions.

Commission investment personnel shall be in compliance with the Commission's Conflict of Interest Policy (7.5) and Gift Ban Policy (7.6).

XI. AUTHORIZED FINANCIAL DEALERS AND QUALIFIED INSTITUTIONS

The Orange County Treasurer is the Commission's Investment Officer and on behalf of the Commission shall only utilize authorized financial dealers and qualified institutions as defined in the Orange County Treasurer's Investment Policy Statement for all of the securities purchased on behalf of the Commission.

XII. MAINTAINING PUBLIC TRUST

All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

XIII. INTERNAL CONTROLS

The Treasurer shall establish a system of written internal controls, which will be reviewed annually with the County's independent (external) auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes or imprudent actions by employees of the Commission. The Treasurer shall evaluate any audit reports in a timely manner with the Investment Oversight Committee.

No Commission investment personnel may engage in an investment transaction except as provided under terms of this Policy and the procedures established by the Orange County Treasurer.

XIV. POLICY REVIEW

The Commission's Policy shall be presented to and annually reviewed and approved by the Board of Directors at a public meeting. The Board of Directors also reviews and approves any changes to the investment Policy. The Policy shall also be reviewed on an annual basis by the Investment Oversight Committee.

XV. FINANCIAL REPORTING

The Treasurer shall prepare a quarterly report which summarizes the Commission's investments in the OCIP and SL-TIP which shall be provided to the Commission's Board of Directors, Executive Director, and Investment Oversight Committee.

All reports filed by the Treasurer in accordance with California Government Code Section 53646 shall, among other matters, state compliance of the portfolio with the Policy, or the manner in which the portfolio is not in compliance.

XVI. LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment type or percentage allocations, will, upon effectiveness, be incorporated into the Policy and supersede any and all previous applicable language.

Exhibit 1

GLOSSARY OF TERMS

ACCRUED INTEREST: The amount of interest that is earned but unpaid since the last interest payment date.

ADJUSTABLE RATE NOTE: (See Floating Rate Note)

AGENCY SECURITIES: (See U. S. Government Agency Securities)

ASKED PRICE: The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

BANKERS ACCEPTANCE (BA): A negotiable money market instrument issued primarily to finance international trade. These are time drafts in which a bank "accepts" as its financial responsibility to pay the principal at maturity even if the importer does not. In essence, these are bank obligations collateralized by goods being shipped between an exporter and an importer.

BASIS POINT: When a yield is expressed as 7.32%, the digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

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

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most money market securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities, and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). These securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

BROKER: A broker brings buyers and sellers together and is compensated for his/her service.

CALLABLE BONDS: Bonds which may be redeemed by the issuing company prior to the maturity date.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a capital asset.

CERTIFICATE OF DEPOSIT (CD or NCD): A deposit of funds at a bank for a specified period of time that earns interest at a specified rate. Commonly known as "CDs" or "negotiable CDs."

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 moneys.

COMMERCIAL PAPER (CP): Short-term unsecured promissory notes issued by corporations for maturities of 270 days or less.

CONSUMER RECEIVABLE-BACKED BONDS: (See Receivable-Backed Securities)

COUPON: The rate at which a bond pays interest.

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.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE: A security whose interest rate of principal amount may vary and are determined by a market index or a combination of market indexes.

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 Treasury bills and bankers 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: An investment principle designed to spread the risk in a portfolio by dividing investments among different sectors, industries and companies.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by the size of that investment.

FEDERAL FUNDS RATE: Interest rate at which banks lend federal funds to each other.

FEDERAL OPEN MARKET COMMITTEE (FOMC): This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system which has supervisory powers over the 12 Federal Reserve banks and about 6,000 member banks.

FIXED-INCOME SECURITIES: Securities which return a fixed income over a specified period.

FLOATING RATE NOTE: A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g. Treasury bills, LIBOR, etc.).

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

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

LOCAL AGENCY: County, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

MARK-TO-MARKET: The market valuation for every security in a portfolio used in determining Net Asset Value (NAV).

MARKET RISK: The risk that changes in overall market conditions or interest rate may adversely affect current market prices.

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.

MEDIUM TERM NOTES (MTN): Debt securities issued by a corporation or depository institution with a maturity ranging from nine months to five years. The term "medium-term notes" refers to the time it takes for an obligation to mature, and includes other corporate debt securities originally issued for maturities longer than five years, but which have now fallen within the five year maturity range. MTNs issued by banks are also called "bank notes."

MONEY MARKET: The market in which short term debt instruments (Treasury bills, discount notes, commercial paper, banker's acceptances, etc.) are issued and traded.

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invest in a variety of short-term money market instruments. The Net Asset Value (NAV) of these funds should remain at $1.00; however, it is not guaranteed.

MOODY'S INVESTORS SERVICE, INC: (See Nationally Recognized Rating Services)

MUNICIPAL DEBT: Issued by public entities to meet capital needs.

NATIONALLY RECOGNIZED RATING SERVICES: Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.) The primary rating agencies include Standard & Poor's Corporation; Moody's Investor Services, Inc.; Fitch Investors Service; Duff & Phelps Investment Service; Thompson BankWatch and International Bank Credit Analyst.

NEGOTIABLE CD: (See Certificates of Deposit)

NET ASSET VALUE (NAV): A per-share valuation of a mutual fund based on total assets minus total liabilities.

NON CALLABLE: Bond that is exempt from any kind of redemption for a stated time period.

OFFER PRICE: The price asked by a seller of securities.

PAR VALUE: The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a certificate and/or supporting documents evidencing the investment (as opposed to “book entry” delivery).

PORTFOLIO: A group of securities held by an investor.

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

PRICE RISK: The risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York, and are subject to its informal oversight.

PRIME RATE: The interest rate banks charge the biggest borrowers with the best credit ratings.

PRINCIPAL: The face value or par value of an investment.

PSA MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase agreements that establish each party’s rights in the transactions.

PURCHASE DATE: See “Trade Date”

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

RECEIVABLE-BACKED SECURITIES: Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

RECEIVABLE PASS-THROUGH CERTIFICATE: A debt obligation that is backed by a portfolio of receivables, normally issued by a bank of financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivables portfolio.

REGISTERED STATE WARRANT: A short-term obligation of a state governmental body issued in anticipation of revenue.

REPURCHASE AGREEMENT (RP OR REPO): The purchase of securities, on a temporary basis, with the seller’s simultaneous agreement to repurchase the securities at a later date at a specified price that includes interest for the buyer’s holding period. In essence, this is a collateralized investment whereby the security “buyer” lends the “seller” money for the period of the agreement.

RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

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

SECURITIES & EXCHANGE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SETTLEMENT DATE: The date on which the purchase or sale of securities is executed. For example, in a purchase transaction, the day securities are physically delivered or wired to the buyer in exchange for cash is the settlement date.

STANDARD & POOR_S CORPORATION: (See Nationally Recognized Rating Services)

THIRD-PARTY CUSTODIAL AGREEMENT: (See Custodian)

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

U. S. GOVERNMENT AGENCY SECURITIES: Debt securities issued by U. S. Government sponsored enterprises and federally related institutions. These government agencies include: Federal Home Loan Banks (FHLB); Federal Home Loan Mortgage Corporation (FHLMC, or "Freddie Mac"); Federal National Mortgage Association (FNMA, or "Fannie Mae"); Federal Farm Credit Banks (FFCB); Resolution Trust Corporation (RTC); and Tennessee Valley Authority (TVA).

U.S. TREASURY SECURITIES: 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 U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

> **Treasury bills:** non-interest-bearing discount securities with maturities under one year issued by the U. S. Treasury to finance the national debt.
>
> **Treasury notes:** interest-bearing obligations of the U. S. Treasury with maturities ranging from two to ten years from date of issue.
>
> **Treasury bonds:** interest-bearing obligations issued by the U. S. Treasury with maturities that range from ten to thirty years from date of issue.

VARIABLE RATE NOTE: (See Floating Rate Note)

YIELD: The annual rate of return on a debt investment computed as though held to maturity expressed in %.

YIELD TO MATURITY (YTM): The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.

ZERO-COUPON BONDS/U.S. TREASURY STRIPS: A bond which represents ownership of a single coupon or principal payment due on a U.S. Treasury bond. "Zeros" or "strips" mature at face value at a specified date in the future and make no payments until that date. They always sell at a discount from face value.