COMMONWEALTH of VIRGINIA
Virginia Passenger Rail Authority Board

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**RESOLUTION
OF THE
VIRGINIA PASSENGER RAIL AUTHORITY BOARD**

January 23, 2024

MOTION

Made By: Patricia Doersch   Seconded By: Sharon Bulova

Action: Motion carried, unanimously

Title: Adopt Revised Investment Policy

WHEREAS, Va. Code § 33.2-297 charges the Virginia Passenger Rail Authority ("**VPRA**") treasurer to deposit all moneys in one or more banks or trust companies, in one or more special accounts; and

WHEREAS, on September 28, 2021, the Board adopted the *Virginia Passenger Rail Authority Investment Policy,* and adopted revisions to that policy on July 21, 2022 (as revised, the "**VPRA Investment Policy"**); and

WHEREAS, on January 12, 2024, the VPRA Finance and Audit Committee met to review the recommended changes to the investment policy, and by unanimous vote recommended that the proposed amendments be brought to the full Board for consideration; and

WHEREAS, the Board now desires to amend the VPRA Investment Policy to: (i) remove the ESG score requirements for investments in Corporate Notes and Commercial Paper, (ii) remove Export Development Canada Bonds from the policy to comply with Va. Code § 2.2-4501, (iii) allow investments in AAA-rated Asset Backed Securities in accordance with the Va. Code § 2.2-4511, (iv) increase the issuer limit for Corporate Notes from 3% to 5%, (v) remove the two year average maturity requirement, and (vi) update the Competitive Selection of Investment Instruments section to remove the requirement for solicitation and evaluation of at least three bids/offers for the investment manager.

NOW THEREFORE, BE IT RESOLVED, that the Board hereby adopts the document titled *Virginia Passenger Rail Authority Investment Policy* dated January 23, 2024, and attached hereto as **EXHIBIT A** for use by VPRA, which shall supersede the previous VPRA Investment Policy.

EXHIBIT A

[SEE ATTACHED]

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Virginia Passenger Rail Authority

Investment Policy

Draft Revision: January 23, 2024

Table of Contents

A. INTRODUCTION

The Virginia Passenger Rail Authority ("VPRA" or "Authority") is a political subdivision of the Commonwealth of Virginia created under §33.2, Chapter 2, Article 6 et seq. of the Code of Virginia to promote, sustain, and expand the availability of passenger and commuter rail service in the Commonwealth and to increase ridership of such service by connecting population centers with passenger and commuter rail service and increasing availability of such service.

All cash and investment activities of the Authority shall be conducted in accordance with the Code of Virginia. The Security for Public Deposits Act ("SPDA"; §2.2-4400 et seq.), the Investment of Public Funds Act (§2.2-4500 et seq.), the provisions of any applicable bond resolutions, and this Investment Policy (the "Policy") provide specific authoritative boundaries. Unless otherwise noted, all citations in this policy refer to the Code of Virginia (1950), as amended.

B. SCOPE

This Investment Policy has been established by the VPRA to ensure effective management of day-to-day investment activity and is designed to increase non-tax revenues by prudently investing funds when not needed for current obligations. This Policy applies to the deposit and investment activities of all funds and monies that are under the Authority's supervision including, but not limited to, all financial assets and funds. This Policy does not apply to any monies in trust for the funding of post-employment employee benefits.

C. OBJECTIVES

The investment activities of the Authority shall be managed, in priority order, by the objectives of safety, liquidity, and yield.

- **Safety of Principal -** The foremost objective is the preservation of principal of those funds within the Investment Portfolio.
- **Maintenance of Liquidity** - The Investment Portfolio will be managed to provide sufficient liquidity to meet the Authority's operating and capital projects cash flow needs which may be reasonably anticipated.
- **Maximizing Return** - The Investment Portfolio shall be managed so as to maximize the return on investments taking into account constraints as to acceptable risk, the characteristics of the Authority's cash flows, and the funding expectations of approved projects.

D. DELEGATION OF AUTHORITY

The Board is responsible for the adoption of the Investment Policy and must approve any revisions or alterations made to it. The Finance Committee of the Authority shall review the actions of the Chief Financial Officer (CFO) regarding the disposition of Authority funds. The Finance Committee meets at regular intervals with the CFO to review the investment activity of the VPRA. The makeup of the Finance Committee is specified in the Bylaws.

The CFO is charged with collecting, safeguarding and disbursing Authority funds. The CFO serves as the investment officer for VPRA with authority for investment decisions to include managing the day-to-day operations of the portfolio, placing purchase orders and sell orders with dealers and financial institutions, procuring banking and financial services and preparing reports as required. Subject to the approval of the Board, the CFO may engage external investment advisors as defined in this Policy, under Section I. Engagement of Investment Managers, to assist in managing VPRA's Investment Portfolio and to provide advice on the administration of cash and investment activities.

The CFO shall invest all available cash into a common investment portfolio. In the event a security(s) held in the portfolio is downgraded, below the approved purchase level, the CFO will promptly notify the Finance Committee of actions taken or strategies planned in response to the downgrade. Actions and strategies will consider the reason for the downgrade, financial condition of the issuer, maturity dates, market value and market conditions. The CFO shall continue to monitor the statutes and regulations and modify investment procedures accordingly to ensure compliance.

No member of the Board, or the Executive Director, or any employee of the Authority acting in accordance with Code of Virginia Section §33.2-1525 shall be personally liable for any loss relating to an investment in the absence of negligence, malfeasance, misfeasance, or nonfeasance.

E. ETHICS AND CONFLICTS OF INTEREST

Any VPRA staff involved in the cash management and 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 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 shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Authority.

F. INTERNAL CONTROLS

The CFO is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Authority are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met, to the extent possible with staff resources.

- Prevention of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping using a delivery versus payment basis
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian.

G. AUTHORIZED DEPOSITORY AND FEE SERVICE BANKS

The CFO shall maintain a list of financial institutions authorized to provide depository and/or investment services for VPRA. In order to ensure orderly and fair competition, the CFO will routinely bid new fee services on an individual basis, when such service is not functionally linked to an existing banking process. Priority will be given to making certain that opportunities are presented to participants in a fair and orderly process.

1. Banks must be "qualified public depositories" as defined in the *Code of Virginia* §2.2-4401 Security for Public Deposits Act.
2. All commercial banks wishing to be authorized to provide services must report a minimum of 4% or greater in the Tier 1 (Core) capital rating in their Quarterly Call Report filed with the FDIC. If any bank were to report a rating of less than 4%, the deposit and fee relationship will be considered in jeopardy and the CFO will take appropriate and prudent action.
3. The CFO will conduct an annual review of the condition of each authorized financial institution. The CFO will undertake interim reviews as conditions dictate.

H. PAYMENT OF BANKING SERVICE AND INVESTMENT FEES

The CFO determines whether paying for banking, financial services and financial products directly or through compensating balances is in the best interest of the Authority. The method of payment chosen will, for the most part, be based on the current rate of return on the portfolio versus the compensating balance rate offered by individual institutions.

Payment methods may change on a month to month and institution by institution basis depending upon which arrangement produces the best overall return, cost constraint, and operational efficiency.

I. ENGAGEMENT OF INVESTMENT MANAGERS

VPRA may engage one or more qualified firms to provide investment management services. All investment management firms who desire to provide investment services to the Authority will be provided with current copies of the Investment Policy. Before an organization can provide investment services to VPRA, it must confirm in writing that it has reviewed the Investment Policy and will not purchase any security for the Authority that, at the time of purchase, is in conflict with the Policy. Only firms meeting the following requirements will be eligible to serve as investment manager for VPRA:

1) Registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940;
2) Must provide an annual updated copy of Form ADV, Part II;
3) Must be registered to conduct business in the Commonwealth of Virginia; and
4) Must have proven experience in providing investment management services under Code of Virginia Title 2.2, Chapter 45.

Any firm engaged by VPRA to provide investment services shall:

1) Maintain a list of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the Commonwealth of Virginia;
2) Provide monthly reports of transactions and holdings to the CFO;
3) Provide quarterly performance reports that display investment performance in comparison to the Authority's investment benchmarks;
4) Upon request, must provide the bids solicited for any security purchased or sold on behalf of the Authority; and

5) Not collect any soft dollar fees from any broker/dealer or other financial firm in relation to services provided to VPRA.

J. AUTHORIZED INVESTMENTS

Subject to applicable state laws, federal laws, bond resolutions, VPRA's Investment Portfolio may be invested in the following Authorized Investments. The CFO may impose additional requirements and restrictions to ensure that the Authority's goals are met. For all Authorized Investments the "time of purchase" or "date of purchase" shall be interpreted as the transaction settlement date.

1. U.S. Treasury Obligations. Bills, notes, and any other obligation or securities issued by or backed by the full faith and credit of the United States Treasury. The final maturity shall not exceed a period of five (5) years from the time of purchase.

2. Federal Agency/Government Sponsored Enterprise Obligations. Bonds, notes, and other obligations of the United States, and securities guaranteed by any federal government agency or instrumentality or government sponsored enterprise, with a rating of at least "AA" (or its equivalent) by at least two of the following NRSROs: Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's ("S&P"), or Fitch Ratings, Inc. ("Fitch"). The final maturity shall not exceed a period of five (5) years from the time of purchase. Any investment in mortgage-backed securities or collateralized mortgage obligations shall have a weighted average life that does not exceed five (5) years from the time of purchase.

3. Municipal Obligations.

a) Bonds, notes, and other general obligations of the Commonwealth of Virginia and its agencies, authorities, and political subdivisions upon which there is no default, with a rating of at least AA (or its equivalent) by at least two of the following NRSROs: S&P, Moody's, or Fitch, matures within three (3) years of the date of purchase, and otherwise meets the requirements of Code of Virginia §2.2-4501.
b) Bonds, notes, and other evidences of indebtedness of any political subdivision within the United States upon which there is no default and upon which there has been no default for more than ninety days; provided, that within the twenty fiscal years next preceding the making of such investment, such political subdivision has not been in default for more than ninety days in the payment of any part of principal or interest of any debt authorized to be contracted. A rating of at least AA (or its equivalent) by at least two of the following NRSROs: S&P, Moody's, or Fitch, matures within three (3) years of the date of purchase is required

4. Commercial Paper. "Prime quality" commercial paper, with a maturity of 270 days or less from the date of purchase, issued by domestic corporations (corporations organized and operating under the laws of the United States or any state thereof) provided that the issuing corporation, or its guarantor, has a short-term debt rating of at least two of the following: P-1 by Moody's, A-1 by S&P, or F1 by Fitch, and that otherwise meets the requirements of Code of Virginia §2.2-4502.

5. Bankers' Acceptance. Issued by domestic banks or a federally chartered office of a foreign bank, which are eligible for purchase by the Federal Reserve System with a maturity of 180 days or less. The issuing corporation, or its guarantor, must have a short-term debt rating from at least two of the following: P-1 by Moody's, A-1 by S&P, or F1 by Fitch.

6. Corporate Notes. High quality corporate notes with a final maturity from the time of purchase of five (5) years or less and shall have received at least two of the following ratings: A by S&P, A2 by Moody's, or A by Fitch.

7. Negotiable Certificates of Deposit and Bank Deposit Notes. Negotiable certificates of deposit and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks that meet the following requirements:

a) Notes with maturities or no more than one (1) year from the time of purchase shall have received at least two of the following ratings: A-1 by S&P, P-1 by Moody's, or F1 by Fitch.
b) Notes with maturities exceeding one year and not exceeding five (5) years from the time of purchase shall have received at least two of the following ratings: AA by S&P, Aa2 by Moody's, or AA by Fitch.

8. Bank Deposits and Non-Negotiable Certificates of Deposit. Demand deposits, time deposits, and other deposits that comply with all aspects of SPDA or with §2.2-4518 with a final maturity no more than two (2) years.

9. Repurchase Agreements. In overnight repurchase agreements provided that the following conditions are met:

a) The contract is fully secured by deliverable U.S. Treasury and Federal Agency/Government Sponsored Enterprise obligations as described in paragraphs 1 and 2 above, including the maximum maturity of three (3) years, having a market value at all times of at least one hundred and two percent (102%) of the amount of the contract;
b) A Master Repurchase Agreement or specific written Repurchase Agreement governs the transaction;
c) The securities are free and clear of any lien and held by an independent third-party custodian acting solely as agent for VPRA, provided such third party is not the seller under the repurchase agreement;
d) A perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Authority;
e) The counterparty is a:
    i. primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or
    ii. a bank, savings and loan association, or diversified securities broker dealer having at least $5 billion in assets and $500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and
f) The counterparty meets the following criteria:
    i. Has a long-term credit rating of at least 'AA' or the equivalent from an NRSRO
    ii. Has been in operation for at least 5 years, and
    iii. Is reputable among market participants.

10. Money Market Mutual Funds (Open-Ended Investment Funds). Shares in open-end, no-load investment funds provided such funds are registered under the Investment Company Act of 1940 and provided that the fund is rated at least AAAm or the equivalent by an NRSRO. The fund should have at least $10 billion in assets managed. The mutual fund must comply with all requirements of Rule 2(a)-7, or any successor rule, of the United States Securities and Exchange Commission, provided the investments by such funds are restricted to investments otherwise permitted by the Code of Virginia (§2.2-4508) for political subdivisions.

11. U.S. Denominated Supranational Agency Bonds. Bonds and other obligations with a final maturity from the time of purchase of five (5) years or less, issued, guaranteed or assumed by the International Bank for Reconstruction and Development, by the Asian Development Bank or by the African Development Bank. Bonds shall have received at least two of the following ratings: AAA by S&P, Aaa by Moody's, or AAA by Fitch.

12. Local Government Investment Pool (LGIP). Investments in this pool are subject to the rules and regulations as set forth by the Virginia Department of the Treasury which manages the pool (§2.2-4602). The CFO shall, on a continual basis, monitor the management and operations of the LGIP.

13. Virginia State Non-Arbitrage Program's (SNAP) Fund. Investments in this pool are limited to unexpended proceeds from the issuance of bonds, the interest on which is subject to rebate under the provisions of the Tax Reform Act of 1986 (§2.2-4700), and reserve accounts directly related to the issuance of debt or other credit agreement.

14. Asset-Backed Securities. Asset-backed securities with a duration of no more than five years with a rating of at least AAA or Aaa by two rating agencies. One of the two qualifying ratings shall be (i) at least Aaa by Moody's Investors Service, Inc.; (ii) at least AAA by Standard and Poor's; or (iii) at least AAA by Fitch Ratings, Inc.

K. PORTFOLIO DIVERSIFICATION

The CFO will diversify holdings of the investment instruments to avoid incurring unreasonable risk inherent in over-investing in any specific instruments or class of instruments, individual financial institution or maturity schedule, while attaining market average rates of return. The Investment Portfolio shall be diversified by security type and institution. The maximum percentage of the portfolio permitted in each eligible security is as follows:

Permitted Investment	Portfolio Limit	Issuer Limit
U.S. Treasury Obligations	100%	100%
Federal Agency/GSE Obligations	100%	35%
Municipal Obligations	20%	5%
Commercial Paper	35%	5%
Bankers' Acceptances	15%	5%
Corporate Notes	25%	5%
Negotiable Certificates of Deposit and Bank Deposit Notes	25%	5%
Bank Deposits and Non-Negotiable Certificates of Deposit	100%	10%

Repurchase Agreements	20%	10%
Money Market Mutual Funds	25%	10%
U.S. Denominated Supranational Agency Bonds	20%	5%
LGIP	100%	100%
Virginia SNAP-SNAP Fund (**Proceeds of Tax Exempt Bonds Only**)	100%	100%
Asset-Backed Securities	20%	5%

L. MATURITIES

Investment maturities shall be scheduled to coincide with projected cash flow needs, taking into account large capital expenditures as well as considering sizable blocks of anticipated revenues. Maintenance of adequate liquidity to meet VPRA's cash flow needs is essential. Accordingly, to the extent possible, the Investment Portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Whenever practical, selection of investment maturities will be consistent with known cash requirements in order to minimize the potential for a forced sale of securities in order to provide cash for disbursement needs. To manage market value volatility, the maximum maturity of any individual investment shall not exceed five (5) years.

M. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

If an external third-party Investment Manager is engaged, VPRA may rely upon their duty to provide best execution in accordance with the Code of Federal Regulations Title 17 part 276 on all securities purchases and sales which may not require solicitation and evaluation of at least three bids. All securities purchases and sales made by VPRA will be transacted only with designated broker/dealers through a formal and competitive process requiring the solicitation and evaluation of at least three bids/offers, taking into consideration current market conditions. VPRA will accept the bid which: (a) offers the highest rate of return within the maturity required and (b) optimizes the investment objective of the overall Investment Portfolio, including diversification requirements. When selling a security, the bid will be selected that generates the highest sale price, consistent with the diversification requirements.

N. SECURITY DOWNGRADES

In the event that any authorized investment held in the Investment Portfolio is downgraded below the minimum credit rating requirement established in Section J of this policy, the Finance Committee shall be notified immediately, and any recommended action of the Board shall be executed.

O. INVESTMENT OF BOND PROCEEDS

The Tax Reform Act of 1986 restricts the interest which may be earned on the unexpended proceeds of tax-exempt bonds issued after 1986. The average yield of investments purchased with bond proceeds may not exceed the yield on the bonds. Any excess earnings are considered arbitrage earnings and must be remitted to the U.S. Treasury. VPRA intends to comply with all applicable sections of the Internal Revenue Code relating to Arbitrage Rebate and the investment of bond proceeds. All investment records will be maintained to ensure compliance with all regulations. In order to avoid the difficulties associated with arbitrage, all unexpended bond proceeds shall be invested separately in the Commonwealth of Virginia's State Non-Arbitrage Pool (SNAP), or its equivalent.

P. SAFEKEEPING AND CUSTODY

Collateral for savings and time deposits shall be pledged according to the provisions of the Security for Public Deposits Act and the requirements of the State Treasury Board regulations.

All securities in the Authority's Investment Portfolio will be held in the name of VPRA and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery versus payment basis. All investment securities purchased by or for VPRA shall be held by a third-party custodial agent that may not otherwise be counterparty to the investment transaction. Such custodial institutions must be qualified to do business in the State of Virginia as banks or trust companies. The custodial agent shall annually provide a copy of its most recent Statement on Standards for Attestation Engagements (SSAE) No. 18 report.

On a monthly basis, the custodial agent will provide reports that list details of all securities held for VPRA including CUSIP, original cost, and market value as of month-end. Original copies of non-negotiable certificates of deposit and confirming copies of all other investment transactions must be delivered to VPRA or its custodial agent.

Q. AUTHORIZED INVESTMENT BROKER/DEALERS

The CFO shall maintain a list of financial institutions authorized to provide depository (Certificates of Deposit, Negotiated Order of Withdrawal and Money Market accounts) and/or investment broker services by voice or Direct (electronic) Purchases. If an external third-party Investment Manager is engaged, the Chief Financial Officer may designate that Investment Manager to maintain a list of approved broker/dealers. In order to ensure orderly and fair competition, the CFO shall limit the number of broker/dealers on the authorized list. For the broker/dealers on the list, priority will be given to making certain that opportunities are presented to participants in a fair and orderly process.

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

1) Registered to sell securities in the Commonwealth of Virginia;
2) Engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years;
3) Capital of at least $10,000,000;
4) Registered as a dealer under the Securities Exchange Act of 1934;
5) Member of the Financial Institution Regulatory Authority ("FINRA");
6) Maintain compliance with FINRA Net Capital Requirements for Brokers or Dealers - SEC Rule 15c3-1;
7) Evidence of adequate insurance coverage;

8) Provide a sworn statement by an authorized representative of the broker/dealer pledging to adhere to “Capital Adequacy Standards” established by the Federal Reserve Board and acknowledging the broker/dealer understands that the VPRA has relied upon this pledge;
9) Certify in writing as to receiving, understanding, and agreeing to abide by this investment policy prior to the start of any activity. Broker/Dealers which repeatedly propose non-allowable or noncompetitive investments will be removed from the approved list; and
10) Any additional information requested by the Chief Financial Officer in evaluating the creditworthiness of the institution.

R. BENCHMARKS

The Investment Portfolio will be designed to obtain at least a market level rate of return, given budgetary and economic cycles, commensurate with VPRA’s risk tolerances and cash flow needs. The Authority’s portfolio management approach will be active, allowing periodic restructuring of the Investment Portfolio to take advantage of current and anticipated interest rate movements. The quarterly portfolio performance benchmarks will be both the Fed Funds Rate and the Treasury 90 Day T-Bill rate. Comparisons to the Virginia State Non-Arbitrage Program (SNAP) and the Virginia Local Government Investment Pool (LGIP) will be maintained as they are both highly liquid investment pools operated in compliance with the Code of Virginia.

S. INVESTMENT ACTIVITY REPORTING

The CFO shall report to the Finance Committee on a regular basis, as determined by the Committee, such information as the Committee requires in order to fulfill its function. At its discretion the Committee may require additional information or clarification from the CFO either orally or in writing. The investment performance report provided to the Finance Committee shall consist of a summary of cash and investments which are the assets of the Authority. This report will list each depository, investment firm or custodian with balances. A listing of all investments, a detailed report of the investments held, and the annual return being realized by each investment will be provided.

In addition to the performance reports, monthly reports of balances and holdings shall be provided to the Board consisting of a summary of cash and investments with associated income.

T. GLOSSARY OF TERMS

Accrued Interest: The accumulated interest due on a bond as of the last interest payment made by the issuer.

Arbitrage: A technique employed to take advantage of price differences in separate markets. This may be accomplished by purchasing a security in one market and immediately selling in another market at a better price. As used in the context of investing public funds, arbitrage means borrowing at low tax-exempt rates and investing in taxable instruments. The arbitrage rebate provisions of the 1986 tax reform act govern this type of activity.

Asset-Backed Securities: An asset-backed security (ABS) is a type of financial investment that is collateralized by an underlying pool of assets—usually ones that generate a cash flow from debt, such as loans, leases, credit card balances, or receivables.

Average Life: The average length of time that issues of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Bankers' Acceptance: a draft or bill or exchange accepted by a bank or trust company.

The accepting institution guarantees payment of the bill, as well as the issuer.

Basis Point (bps): A basis point refers to the measure of the yield to maturity of an investments calculated to four decimal places. For example, one quarter of one percent would be expressed as "twenty-five basis points".

Benchmark: a comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

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

Bond: A written, interest bearing certificate of debt with a promise to pay on a specific date and with a set annual rate of interest.

Book Value: The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Broker: A person or firm acting as an agent for buyers and sellers.

Cash Sale/Purchase: A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

Certificate of Deposit (CD): A bank deposit evidenced by a negotiable or non-negotiable instrument which provides on its face that the amount of such deposit is payable to the bearer or a specified person on a certain date or upon notice in writing. Negotiable CD's may be sold on the secondary market, thus providing liquidity. Liquidation of non-negotiable CD's generally involves penalties.

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

Collusion: Collusion is a situation where two or more individuals are working in conjunction to commit fraud.

Commercial Paper: An unsecured promissory note with a fixed maturity no longer than

270 days. Public offerings are exempt from SEC regulation.

Compensating Balance: A minimum level of deposits maintained in one or more non-interesting bearing accounts at a bank to defray the costs of banking services.

Corporate Notes: Unsecured promissory notes issued by corporations to raise capital.

Coupon Rate: The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

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

Current Yield (Current Return): A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

Custodial Safekeeping: Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.

Dealer: Acts as a principal in all transactions, buying and selling for his own account.

Delivery versus Payment: delivery of securities with an exchange of money for the securities.

Demand Deposit: A depository account from which withdrawals may be made as desired, e.g. a checking account.

Discount: The amount or percentage at which a security sells below par value. For example, if a bond with a $1,000 par value sells for $900 the discount is $100 or 10%.

Diversification: allocation investment funds among a variety of securities offering independent returns.

D.T.C.: The Depository Trust Company (DTC) of New York acts as the repository for all securities which are electronic, as opposed to physical, delivery. These include all U.S. Treasury and agency issues and certain issues of commercial paper.

Delivery Versus Payment: Delivering securities "DVP" means that funds are not released by the trustee until the security is delivered either in physical form or through DTC.

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

FDIC: Federal Deposit Insurance Corporation

Federal Agency: government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets, also referred to as Government Sponsored Enterprises or GSEs. The largest are Ginnie Mae, Fannie Mae, Freddie Mac, Federal Home Loan Banks, Federal Farm Credit Bank, Tennessee Valley Authority.

Federal Funds (Fed Funds): Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

Federal Funds Rate: Interest rate charged by one institution lending federal funds to the other.

Federal Reserve System: System established by the Federal Reserve Act of 1913 to regulate the U.S. monetary and banking system. The Federal Reserve System (the Fed) is comprised of 12 regional Federal Reserve Banks, their 24 branches, and all national and state banks that are part of the system. National banks are stockholders of the Federal Reserve Bank in their regions. The Fed's main functions are to regulate the national money supply, set reserve requirements for member banks, supervise the printing of currency at the mint, act as clearinghouse for the transfer of funds throughout the banking system and examine member banks to make sure they meet various Federal Reserve regulations.

FINRA: Financial Industry Regulatory Authority is the largest non-governmental regulator for all securities firms doing business with the United States public.

Fiscal Year: A twelve-month period of time to which the annual budget applies and at the end of which a governmental unit determines its financial position and the results of its operation.

Governmental Accounting Standards Board (GASB): A nationally recognized board consisting of five members, appointed by and operating under the Financial Accounting Foundation. The GASB is the highest source of reporting and accounting guidance for state and local governments.

Government Securities: An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market.

Interest Rate: See Coupon Rate.

Interest Rate Risk: The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Internal Controls: Internal controls are procedures designed to protect the assets of the entity from loss, theft, or misuse.

Investment: The use of capital to create more money, either through income producing vehicles or through more risk-oriented ventures designed to result in capital gains. Investment connotes the idea that safety of principal is important. Speculation, on the other hand, is far riskier.

Investment Company Act of 1940: Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Policy: A concise and clear statement of the objectives and guidelines formulated by an investor or investment manager for a portfolio of investment securities.

Liquidity: the ability or ease with which as asset can be converted into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be transacted at those quotes.

Local Government Investment Pool (LGIP): An investment by local governments in which their money is pooled as a method for managing local funds. A specialized commingled investment program that operates in compliance with Government Accounting Standards Board's Statement 79 ("GASB 79) that was created in the 1980 session of the General Assembly (Code of Virginia §2.2-4700 et seq.) designed to offer a convenient and cost-effective investment vehicle for public funds. The LGIP is administered by the Treasury Board of the Commonwealth of Virginia and is rated AAAm by Standard & Poor's.

Market Risk: The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value: Current market price of a security.

Master Repurchase Agreement: a written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

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

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

Municipal Obligation: A security issued by a state or local government, authority or similar entity. These obligations are generally exempt from federal income tax. Taxable municipal obligations are issued by localities or authorities for non-purpose projects.

Mutual Fund: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the Securities and Exchange Commission (SEC) disclosure guidelines.

Nationally Recognized Statistical Rating Organization (NRSRO): A credit rating agency which issues credit ratings that the U.S. Securities and Exchange Commission (the "SEC") permits other financial firms to use for certain regulatory purposes. Several examples include Moody's Investor Service, Standard & Poor's and Fitch Ratings.

Net Asset Value: The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. [(Total assets) - (Liabilities)] / (Number of shares outstanding).

Offer: An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

Par Value: The value of a security as expressed on its face without any consideration of any premium, discount or accrued interest. Par value is also known as "face amount" or "face value".

Portfolio: A collection of securities held by an investor.

Premium: The amount by which the price paid for a security exceeds the par value. For example, if a bond with a $1,000 par value sells for $1,100 the premium is $100 or 10%.

Primary Dealer: A securities dealer that buys government securities directly from the Federal Reserve Bank (the Fed) and that has met certain minimum financial criteria set by the Markets Reports Division of the Federal Reserve Bank of New York. The Fed requires primary dealers to maintain a minimum capital adequacy ratio of liquid capital to measured risk that meets or exceeds 125 percent.

Prime Rate: A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

Principal: The face value or par value of a debt instrument. Also, may refer to the amount of capital invested in a given security.

Prudent Person Rule: An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Rate of Return: the yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement ("Repo"): A short term investment wherein an investor purchases a security (i.e. a Treasury Bond) in return for the seller's agreement to buy the security back on a specified date for a specified amount greater that the amount the investor paid. The principal is guaranteed, and the return fixed under such an agreement.

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

Safekeeping: Holding of assets (e.g., securities) by a financial institution.

SEC Rule 15C3-1: see "Uniform Net Capital Rule".

Securities and Exchange Commission ("SEC"): agency created by Congress to protect investors in securities transactions by administering securities legislation.

Serial Bond: A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

SNAP (State Non-Arbitrage Program): An investment program established by the State Treasurer, as authorized under Section 2.1-234.9, to assist local bond issuers in the management, investment and accounting of bond proceeds in compliance with certain provisions of the federal Tax Reform Act of 1986. The purpose of this arrangement is to centralize the administrative and legal requirements of compliance with complex IRS provisions regarding municipal bond Arbitrage.

Term Bond: Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

Time Deposit: A bank deposit drawing interest at intervals and having a restrictive level of withdrawals, e.g. a savings account.

Total Return: The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return

Treasury Bills: Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Bonds: Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of $1,000. Currently, the longest outstanding maturity for such securities is 30 years.

Treasury Notes: Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from $1,000 to $1 million or more.

Treasury Obligations: Securities representing obligations backed by the full faith and credit of the United States. Treasury bills are short term obligations (3 and 6 month), treasury notes are medium term obligations (1 to 7 years) and treasury bonds are long term obligations (over 7 years).

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

U.S. Agency Securities: Obligations issued by agencies established by the United States but not backed by the full faith and credit of the government. These obligations are regarded as almost as risk free as direct treasury issues as the federal government supervises and regulates the issuers and is regarded as having a moral obligation to ensure repayment.

Volatility: A degree of fluctuation in the price and valuation of securities.

Weighted Average Maturity (WAM): The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds thirteen months.

Yield: The current rate of return on an investment security generally expressed as a percentage of the security's current price.

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