City of Foster City, California and
Estero Municipal Improvement District

INVESTMENT POLICY

June 17, 2024

CITY OF FOSTER CITY AND
ESTERO MUNICIPAL IMPROVEMENT DISTRICT (DISTRICT)

INVESTMENT POLICY

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Patrick Sullivan, Mayor/District President
Stacy Jimenez, Vice Mayor/District Vice President
Jon Froomin, Councilmember/District Director
Sam Hindi, Councilmember/District Director
Art Kiesel, Councilmember/District Director

Stefan Chatwin, City/District Manager

PREPARED BY:
Financial Services Department

CITY OF FOSTER CITY AND
ESTERO MUNICIPAL IMPROVEMENT DISTRICT

INVESTMENT POLICY

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CITY OF FOSTER CITY AND
ESTERO MUNICIPAL IMPROVEMENT DISTRICT

INVESTMENT POLICY
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POLICY

It is the policy of the City of Foster City /Estero Municipal Improvement District (hereinafter collectively referred to as “City” or "City of Foster City") to invest public funds in a manner which will provide the optimal return available consistent with the City’s liquidity needs and the primary objective of protecting the safety of principal conforming to all laws of the State of California regarding the investment of public funds.

SCOPE

The City Treasurer or his/her designee is authorized to invest the City's funds in accordance with the California Government Code Sections 53601.1, 53602, 53635, and 53646. This investment policy applies to all financial assets of the City. These funds are accounted for in the Annual Comprehensive Financial Report which includes the following fund types:

- General Fund
- Special Revenue
- Capital Projects
- Enterprise
- Internal Service
- Trust and Agency
- Any new fund created by the legislative body, unless specifically exempted.

All monies entrusted to the City Treasurer will be pooled in an actively managed portfolio except for employee retirement funds, which are administered separately.

PRUDENCE

The actions of the City Treasurer in the performance of his/her duties as manager of public funds shall be evaluated using the following prudent person standard applied in the context of managing the overall portfolio:

> Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.
>
> Investment officers acting in accordance with written procedures and the investment policy 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 to the City Council / District Board in a timely fashion and appropriate action is taken to control adverse developments.

OBJECTIVES

There are three (3) primary objectives of the City's Investment activities. In order of priority, they are: a) Safety, b) Liquidity, and c) Yield. In every case, all investment securities that are chosen to achieve these objectives will be in conformance with California state law and all applicable local ordinances or policies.

A. Safety

Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The City shall seek to safeguard principal by a careful examination of credit risk and market risk of individual investments.

1. Credit Risk - is defined as the risk of loss due to failure of an issuer of a security, shall be mitigated by investing in only very safe institutions and by diversifying the fund so that the failure of any one issuer would not unduly harm the City's cash flow.

2. Market Risk - is defined as the risk of market value fluctuations of the investment portfolio's securities due to overall changes in the general level of interest rates, shall be mitigated by managing duration risk of the City/District fund to no less than one year and no greater than three years.

B. Liquidity

The City investment portfolio will remain sufficiently liquid to enable the City to meet all operating expenditure requirements which might be reasonably anticipated. In order to maintain liquidity, the City shall maintain cash and investments with a maturity of not greater than one (1) year that is equal or greater than the sum of the minimum operating and capital reserve requirements established by City Council / District Board policy for the General Fund, Capital Improvement Funds, Enterprise Funds, Internal Service Funds, and any other funds for which the Council/Board may establish minimum reserve requirements. Notwithstanding the above considerations, a minimum of 5% of the portfolio will have investments maturing within one day or in pooled or money market funds.

C. Yield

The City investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the cash flow characteristics of the portfolio. Whenever possible, consistent with risk limitations and prudent investment principles, the City shall make an effort to achieve returns not less than the market average rate of return. The market-average rate of return is defined as the average return on One-Year U.S. Treasury Notes, measured by an index comprised of the 12 current U.S. Treasury One-Year Notes.

DELEGATION OF AUTHORITY

Pursuant to Section 2.16.030 of the City Municipal Code, the City Treasurer has been authorized to undertake investment transactions on behalf of the City. The only officials authorized to undertake investment transactions on behalf of the City are the City Treasurer and Assistant Finance Director. The actual disbursement of funds for the placement of individual investments undertaken by these two officials shall be subjected to a second party approval by officers authorized to sign City checks and wire transfers. On a quarterly basis, the City Treasurer and the Administrative Services Director shall discuss the status of current investments, strategies for future investments, and other investment matters deemed necessary and shall report to the City Council as necessary.

The City Treasurer is responsible for ensuring compliance with the City's investment policies as well as for establishing systems of internal control to regulate the activities of subordinate officials.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Clerk any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial investment positions that could be related to the performance of the City investment portfolio.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City Treasurer or his/her designee will maintain a list of financial institutions authorized to provide investment services and shall conduct an annual review of the financial condition and credit worthiness of all institutions that the City is currently using for the placement of investments. All financial institutions including broker/dealers which desire to become qualified bidders for the City's investment transactions must provide the Financial Services Department with the following:

- Certification of qualification under the Security and Exchange Commission’s (SEC) Rule 15c3-1 (Net Capital Requirement for Brokers and Dealers)
- Certification of registration with all appropriate federal and state regulatory bodies, which may include but are not limited to: SEC, Municipal Securities Rulemaking Board, Financial Industry Regulatory Authority, California Department of Corporations
- Audited financial statement for the last three years and subsequent quarterly financial statements.
- Certification of having read the City investment policy and depository contracts.

The City may require, at its discretion, periodic recertification of the matters set forth above.

The City Treasurer or his/her designee will investigate all financial institutions including brokers/dealers to determine if they are adequately capitalized, broker or deal in market securities appropriate to the City's needs, and agree to abide by the conditions set forth in the investment policy of the City. This will be done by having the financial institutions, brokers or dealers complete and return the appropriate questionnaire to the City Treasurer or his/her designee.

AUTHORIZED AND SUITABLE INVESTMENTS

The State of California Government Code (specifically, sections 16429.1, 53601 and 53649) limits the investment vehicles available to local agencies.

The following table summarizes the authorized investments, their maximum maturity, maximum percentage of portfolio, and maximum investment in any one issuer:

Authorized Investment Type[1]	**Maximum Maturity**	**Maximum % of Portfolio**	**Maximum Investment in One Issuer (as % of Portfolio)**
State Treasurer's Local Agency Investment Fund	N/A	100%	100%
San Mateo County Pool Investment Program	N/A	10%	10%
Government Agency Issues			
• Local Municipal Bonds	5 years	5%	5%
• State Bonds	5 years	5%	5%
• U.S. Treasury Obligations	5 years	100%	100%
• U.S. Agency Securities	5 years	100%	50%
Bankers Acceptances	180 days	25%	5%
Commercial Paper ("A1" rating or better)	90 days	20%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Repurchase Agreements	1 year	50%	50%
Medium-Term Notes ("A1" rating or better)	5 years	5%	5%
Shares of Beneficial Interest (Mutual Funds)	N/A	10%	10%
Shares of Beneficial Interest issued by a joint powers authority	N/A	50%	50%
Certificates of Deposit (non-negotiable)	1 year	10%	Maximum insurable deposit with FDIC[2]

Detailed descriptions of each type of investments listed above are as follows:

[1] Investment Grade Ratings are based on Moody's Long-Term Obligation Ratings. Alternative equivalent ratings by Standard & Poor's are also acceptable.
[2] Current maximum insured amount per institution is $250,000.

- State Treasurer's Local Agency Investment Fund (LAIF) - Government Code Section 16429.1 authorizes each local government agency to invest funds at a maximum amount allowable in this investment program administered by the California State Treasurer. The maximum amount of funds that can be invested with LAIF as dictated by LAIF regulations.

- San Mateo County Pool Investment Program - Money invested with the San Mateo County Pool Investment Program. Investment in the County Pool is limited to 10% of the portfolio.

- Government Agency Issues – Securities from various government agencies, such as those identified in Government Code Section 53601 (a) through (e), includes the following:

    - Local Municipal Bonds or other indebtedness – maximum maturity is 5 years from date of purchase, no limit on the amount of the portfolio, and no more than 5% of the total portfolio invested in any one issuer. Preference will be given to California municipal agencies.

    - State Bonds or other indebtedness – maximum maturity of 5 years from date of purchase, a 5% limit on total investments in the portfolio, and no more than 5% of the total portfolio invested in any one issuer.

    - U.S. Treasury Obligations, including notes or other indebtedness secured by the full faith and credit of the Federal Government – maximum maturity of 5 years from date of purchase, and no limit on amount invested as a % of total portfolio.

    - U.S. Agency Securities, including but not limited to issues by federal agencies such as the Federal Farm Credit Bureau, Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation – maximum maturity of 5 years from date of purchase, no limit on amount investment as a % of total portfolio, and no more than 50% of the total portfolio invested in any one issuer.

- Bankers Acceptances - As authorized by Government Code Section 53601 (f), 25% of the City's portfolio may be invested in Bankers Acceptances that are eligible for purchase by the Federal Reserve System. Purchases of Bankers Acceptances may not exceed a 180 day maturity. No more than 5% of the market value of the portfolio shall be placed with any one institution.

- Commercial Paper - As authorized by Government Code Section 53601 (g), 20% of the City's portfolio may be invested in commercial paper having a 'A1' rating for the issuers debt, rated by Moody's or Standard and Poors, with maturities not to exceed 90 days. No more than 5% of the portfolio shall be placed with any one institution.

- Negotiable Certificate of Deposit - As authorized in Government Code Section 53601 (h), the City may invest 30% of its portfolio in negotiable certificates of deposit issued by commercial banks and savings and loan associations with a maturity at issuance of no greater than 5 years. No more than 5% of the market value of the portfolio shall be placed with any one institution.

- Repurchase Agreements - As authorized in Government Code Section 53601(l), this investment is an agreement between the local agency and seller for the purchase of securities on or before a specified date for a specified amount. The City may invest in Repurchase Agreements with banks and dealers with which the City has entered into a master repurchase contract which specifies terms and conditions of Repurchase Agreements and are fully collateralized by delivery to an independent third party custodian. In order to conform with the provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreement, the only securities acceptable as collateral shall be eligible negotiable certificates of deposit, eligible banker's acceptances, or securities that are direct obligations of, or that are fully guaranteed as to principal and interest by, the United States or any agency of the United States. There is no legal limitation on the amount of the repurchase agreement. However, the maturity period cannot exceed one year.

- Medium-Term Notes - As authorized in Government Code Section 53601(o), medium-term notes are considered notes 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. Notes eligible for investment under this subdivision shall be rated in a rating category of "A1" or better by Standard & Poor or by Moody's rating services. Securities must have a maturity of no greater than five years from the date of purchase. No more than 5% percent of the portfolio may be invested in medium-term notes.

- Shares of Beneficial Interest (mutual funds) - As authorized by Government Section Code 53601(k), issues by diversified management companies, otherwise known as mutual funds, and as defined in Section 23701(m) of the Revenue and Taxation Code, are allowable investments. Mutual funds must consist of securities and obligations of the U.S. Government authorized by Section 53601 of the California Government Code. To be eligible for investment, said companies shall either:

    1. Attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or

    2. Have an investment adviser registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations as authorized above, and with assets under management in excess of $500,000,000. The price of shares of beneficial interest (mutual funds) shall not include any commission that these companies may charge at the time of purchase or redemption. No more than 10% of the portfolio may be invested in mutual funds.

- Shares of Beneficial Interest (joint powers authority) – Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.

(3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

- Certificates of Deposit (non-negotiable) - As authorized in Government Code Section 53601, Certificates of Deposit are fixed term deposits with a financial institution with stipulated interest rates. The City shall deposit funds only with financial institutions which operate in California. Such investments are required to be collateralized by financial institutions from 105% to 150% depending on the specific security pledged as collateral. These institutions must be insured by the Federal Deposit Insurance Corporation (FDIC) or other federal government insurance banking systems. Although financial institutions are required to collateralize such deposits, to guarantee preservation of capital, the City shall limit its investment in certificates of deposit to the maximum insurable deposit guaranteed by the FDIC or other federal insurance guarantor. The Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law on July 21, 2010, establishing the FDIC-insured amount in effect per depositor of $250,000. The maximum maturity at issuance may not exceed 1 year.

DOWNGRADED BONDS

In the event that the rating of any investment is downgraded to ‘A2’, the City Treasurer will immediately notify the City Manager. If it is downgraded to ‘A3’ rating, the City Manager will provide notice to the City Council of the downgrade and that the bond will be sold if it falls to “Baa” rating or below, regardless of the loss, unless otherwise directed by City Council resolution at the next available City Council meeting.

COLLATERALIZATION

Collateralization will be required on two types of investments: Certificates of Deposit and Repurchase Agreements. Federal and State law governs the collateralization requirements for Certificates of Deposit, which under the terms of this policy shall not be less than 102% of the value of the deposit. With regards to Repurchase Agreements, the collateralization level will be in conformance with the California Government Code, and in no event less than 102% of market value of principal and accrued interest.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. Clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained by the issuing institution at all times.

SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the City Treasurer and evidenced by safekeeping receipts.

DIVERSIFICATION

The City will diversify its investments by security type and institution in accordance with the table of Authorized and Suitable Investments. However, 100% of the portfolio may consist of U.S. Treasury, U.S. Agency securities and/or the LAIF investment pool.

MAXIMUM MATURITIES

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. The City will not invest in securities maturing more than five (5) years from the date of purchase.

INTERNAL CONTROL

The City Treasurer shall establish an annual process of review internally, including assuring that an independent analysis by an external auditor be conducted annually to review and perform procedures testing on the City’s cash and investments.

PERFORMANCE STANDARDS

The investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the City's risk constraints and cash flow needs.

The City's investment strategy is to obtain a market average rate of return. The market average rate of return is defined as the average return on one-year U.S. Treasury Notes.

REPORTING

The City Treasurer shall submit investment reports monthly to the City Council which should include a list of the portfolio’s holdings by investment asset class, name of institution, purchase date, maturity date, call date, par value, amount of deposit or cost of security, amortized book value, current market value of securities, coupon and effective yield. In addition, the report will indicate the portfolio’s duration, total weighted average maturity and yield. The report will be signed as mandated in compliance with California Government Code Sections 53607 and 53646.

INVESTMENT POLICY ADOPTION

The above investment policy is adopted by resolution of the City of Foster City/Estero Municipal Improvement District. The policy is reviewed on an annual basis by the City Treasurer and Administrative Services Director and any modifications made thereto shall be approved by the City Council/District Board.

GLOSSARY

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): 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 insurer.

BID: The price offered for securities.

BOND RATINGS: bond ratings measure quality and safety based on the issuer's financial condition. These rating services evaluate the likelihood that a debt issuer will be able to meet scheduled interest and principal payments.

Moody's vs. Standard & Poors Bond Ratings			
Bond Rating		**Grade**	**Risk**
Moody's	**Standard & Poor's**		
Aaa	AAA	Investment, Highest Quality	Lowest Risk
Aa (1-3)	AA	Investment, Very High Quality	Low Risk
A (1-3)	A	Investment, High Quality	Low Risk
Baa	BBB	Minimum Investment Grade	Medium Risk
Ba	BB	Junk, Speculative	High Risk
B	B	Junk, Very Speculative	Higher Risk
Caa	CCC	Junk, Default Possible	Higher Risk
Ca	CC	Junk, Default Probable	Extreme Risk
C	D	Junk, In actual or imminent default	Highest Risk

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

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

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Certificate of Deposit may be issued in either negotiable or nonnegotiable form. Nonnegotiable certificates cannot be resold in the secondary market and may face penalties for early redemption whereas a negotiable CD may be resold.

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

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

DEBENTURE: A bond secured only by the general credit of the issuer.

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

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

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent return.

DURATION: A measure of the sensitivity of the asset's price to interest rate movements. It broadly corresponds to the length of time before the asset is due to be repaid. Example: the duration of a US Treasury Bill which matures in one year is 1.0. If interest rates immediately move 1% after purchase, the value of the investment would also change by 1%.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

FEDERAL FARM CREDIT BUREAU: The Bureau issues a variety of Federal Farm Credit Banks Consolidated System wide Debt Securities (Farm Credit Debt Securities) on behalf of the Farm Credit System Banks with a broad range of maturities and structures.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

FEDERAL HOME LOAN MORTGAGE CORPORATION: The FHLMC, or “Freddie Mac”, is a Government-chartered corporation which buys qualified mortgage loans from the financial institutions that originate them, securitizes the loans, and distributes the securities through the dealer community. The securities are not backed by the U.S. Government, however it does operate under a conservatorship that began on September 6, 2008, and conducts its business under the direction of the Federal Housing Finance Agency (FHFA).

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., 12 Regional Banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by PHA, VA or FMHM mortgages. The term pass-throughs is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly 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 done at those quotes.

LOCAL AGENCY INVESTMENT FUND (LAIF): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

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

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

PORTFOLIO: Collection of securities held by an investor.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state - the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

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

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 form of short-term borrowing for dealers in government securities. Technically, it represents the simultaneous sell and repurchase of a security. The dealer sells the combination of securities needed to overcollateralize the investor's principal investment usually on an overnight basis, and buys them back the following day. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future), it is a reverse repurchase agreement.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

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

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

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

WEIGHTED AVERAGE MATURITY (WAM) – a measure of the portfolio's investments with respect to timing of cash flows. Example: If a portfolio had only two securities of equal size, one maturing in 2 years and another in 3 years, the portfolio's WAM would be 2.5 years. If the 2 year investment was $1 mm and the 3 year investment was $10 mm, the WAM would be 2.9 years.

YIELD: An investment's annualized return. The simplest version of yield is calculated using the following formula: [yield = coupon amount/price.] When a bond is purchased at par (100% of face value), yield is equal to the interest rate. When the price changes, so does the yield.

BOOK YIELD – The yield to maturity at which the investment was purchased.

MARKET YIELD – the yield to maturity of the bond at current market price

PORTFOLIO'S NET YIELD – The total interest received divided by amount invested, plus any gains and minus any losses taken, annualized.

YIELD TO MATURITY – The internal rate of return earned by an investor who buys the bond today at the market price, assuming that the bond will be held until maturity, and that all coupon and principal payments will be made on schedule. Yield to maturity is actually an estimation of future return, as the rate at which coupon payments can be reinvested when received is unknown.