

# **CLARK COUNTY, NEVADA**

## **INVESTMENT POLICY**



**CLARK COUNTY TREASURER'S OFFICE  
500 S. GRAND CENTRAL PARKWAY  
LAS VEGAS, NEVADA 89106**

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Treasurer**

**EFFECTIVE JULY 1, 2004**

<http://www.clarkcountynv.gov/treasurer/>

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**I. POLICY INTRODUCTION AND SCOPE**

The investment function of Clark County (County) funds is a function performed by the County Treasurer. It is the policy of the County to invest public funds in a manner which will provide market rate of return with the maximum security while meeting the daily cash flow demands of the County and conforming to all Nevada Revised Statutes (NRS) and County ordinances governing the investment of public funds.

This policy applies to all financial assets of the County that are overseen by the Treasurer, including, but not specifically limited to those assets held in the public interest in the County's fiscal capacity as well as those held in trust or agency capacity for other governmental entities. Should bond covenants be more restrictive than this policy, bond proceeds will be invested in full compliance with those restrictions. Additionally, all funds overseen by the Treasurer are accounted for in the County's Comprehensive Annual Financial Report.

**II. STANDARD OF PRUDENCE**

The standard of prudence to be applied to the investment of the County's assets shall be the "Prudent Person" which states: *"In investing the County's monies, there shall be exercised the judgment and care under the 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"*.

**III. INVESTMENT OBJECTIVES**

The County's available funds are to be invested in short-term and intermediate-term fixed income instruments earning a market rate of interest without assuming undue risk to principal. The primary objectives of such investments shall be, in order of importance:

- A. Safety of Principal:** Safety of principal is the foremost objective of the County's investment program. Investments by the County Treasurer shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

- B. Maintenance of Liquidity:** The County's investment portfolio will remain sufficiently liquid to enable the County to meet all operating requirements which might be reasonably anticipated.
- C. Yield:** The County's investment portfolio shall be structured with the objective of earning a market rate of return in relation to the prevailing budgetary and economic environments and taking into account the County's investment risk constraints and the cash flow characteristics of the portfolio.

#### ***IV. DELEGATION OF AUTHORITY AND INVESTMENT RESPONSIBILITY***

Under authority delegated by the Board of County Commissioners (BCC), in accordance with NRS 355.175, the investment of County funds is the responsibility of the Treasurer. As such, all cash, including bond proceeds, received by the County will be invested by the Treasurer, and authorized investment managers.

The Treasurer's responsibilities include the authority to open accounts with financial institutions and broker/dealers, to arrange for the custody of securities, and to execute such documents as may be necessary to carry out these responsibilities. The Treasurer is also responsible for furnishing authentic, timely instructions to the safekeeping bank(s) concerning settlement of investment transactions, and verifying accuracy of completed transactions.

#### ***V. REPORTING***

The Treasurer will report monthly the status of investments to the BBC, the County Manager, and the Chief Financial Officer/Comptroller. Such reports will include a complete listing of securities held, income earned, weighted average maturity, aggregate current yield, and a certification by the Treasurer as to compliance with Nevada Revised Statutes and this policy statement during the period under review. The monthly report shall be subject to audit by the County's internal and external auditors at any time.

The Treasurer shall also maintain records, subject to audit, of all investment transactions including the names of all obligors, descriptions of all securities purchased and sold (including dates of issue, acquisition and maturity, coupon, price, yield, and gain or loss on ultimate disposition), name of the broker/dealer involved in each transaction, custodian of each security, and the sale or maturity of each security.

The County will comply with any arbitrage reporting requirements as set forth in all applicable federal, state, and local laws. Additionally, the County will comply with all Government Accounting Standards Board requirements.

## **VI. CLARK COUNTY INVESTMENT POOL**

The Treasurer is authorized to pool cash balances from the various funds of the County for investment purposes in accordance with NRS 355.168. The Investment Pool will be operated in accordance with the guidelines set forth in Appendix A. The investment of pooled cash balances shall be made in accordance with all the provisions of this investment policy.

## **VII. ETHICS AND CONFLICTS OF INTEREST**

Nevada Revised Statute 281.561 mandates that the County Treasurer file an annual Statement of Financial Disclosure form with the Secretary of State. Additionally, 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. See Clark County Code 2.40.090.

## **VIII. AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS**

### **A. New Broker/Dealer Application**

Annually, the Treasurer shall evaluate if changes are warranted in regards to broker/dealer relationships. If changes are warranted, then any broker/dealer may make an application to the Treasurer to transact investments with the County. To qualify for selection, broker/dealers must either be primary dealers, regional dealers, or regional dealers that clear transactions through a dealer that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and must have been in operation at least three years. The Treasurer shall select and maintain a list of approved broker/dealers and financial institutions. Those institutions that desire to be approved to conduct investment transactions must submit the following:

1. Most current year audited financial statements.
2. Current proof of National Association of Securities Dealers (NASD) certification.

3. Completed Clark County Broker/Dealer Questionnaire.
4. Written acknowledgement of the County's Investment Policy.
5. At least three references from other public entities, agencies, and/or organizations that have an ongoing business relationship with the broker/dealer.

**B. Existing Broker Dealer Review**

The Treasurer shall, at least annually, analyze and evaluate all financial institutions and broker/dealers with which the County conducts investment transactions.

The annual analysis and evaluation of authorized financial institutions and broker/dealers shall include the following:

1. A review of the annual financial statements of each broker/dealer or financial institution.
2. A review of the credit rating, ranking, or standing of each financial institution or broker/dealer as published by a nationally recognized authority. If a broker/dealer utilizes a clearing broker/dealer, then a review of the clearing firm shall be performed.
3. A review of the responsiveness of each financial institution or broker/dealer bidding and offering investments.
4. A review of the applicable registrations of each financial institution or broker/dealer if the registration has changed from the previous year.

**C. External Managers & Money Market Funds Broker Dealer Lists**

External investment managers and money market fund companies shall annually provide a list of broker/dealers that are involved with transactions dealing with the County's funds. These broker/dealers shall be registered with the Securities and Exchange Commission. Also, the external managers and money market fund companies shall annually provide written acknowledgement of the Investment Policy.

The County Treasurer shall make available, via the internet, the current edition of the Clark County Investment Policy to all broker/dealers and financial institutions which are approved to conduct investment transactions with the County. When changes to the Investment Policy are adopted by the BCC, the broker/dealer or financial institution shall confirm in writing that the new policy has been reviewed by the appropriate personnel. In the absence of such confirmation, investment transactions will not be considered with the broker/dealer or financial institution.

**IX. AUTHORIZED AND PERMITTED INVESTMENTS**

**A. Clark County Can Only Invest in the Following Securities:**

1. **U.S. Treasuries:** Bills, notes, bonds, and debentures of the United States Treasury, the maturity date of which is not more than 10 years from the date of purchase.
2. **U.S. Federal Agencies:** Securities, including mortgage-backed pass-through securities, issued by the following agencies: Federal Farm Credit Bank, Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and the Federal Agricultural Mortgage Association. Maturities on federal agency securities must not exceed 10 years from the date of purchase.
3. **Bankers Acceptances:** Bankers' acceptances of the kind and maturities made eligible by law for rediscount with Federal Reserve Banks, and generally accepted by banks or trust companies which are members of the Federal Reserve System. Eligible bankers' acceptances may not exceed 180 days' maturity. Purchases of bankers' acceptances may not exceed 20 percent of the money available to a local government for investment as determined on the date of purchase.
4. **Commercial Paper:** Commercial Paper issued by corporations or depositories organized and operating in the United States with a short term credit rating of "A-1, P-1" or its equivalent or better. Maturities of Commercial Paper must not exceed 270 days. Money invested in Commercial Paper must not exceed 20 percent of the total portfolio. Commercial Paper must be purchased from a registered broker/dealer. If the rating of a commercial paper issue is reduced below the rating requirements mentioned above, it must be sold as soon as possible.

5. **Money Market Mutual Funds:** Funds which are registered with the Securities and Exchange Commission, are rated AAA by a nationally recognized rating service and invest in securities issued by the Federal Government or agencies of the Federal Government, master notes, bank notes, or other short-term commercial paper rated by a nationally recognized rating service as “A-1”, “P-1”, or its equivalent, or better, and in repurchase agreements fully collateralized by such securities.
6. **Negotiable Certificates of Deposit:** CDs which are issued by commercial banks or insured savings and loan associations. In addition, issuers must attain the following minimum ratings by at least two rating services: “B” by Thomson Bank Watch or “A-1” for deposits by Standard & Poor’s or “P-1” for deposits by Moody’s or comparably rated by a nationally recognized rating agency.

**Non-Negotiable Certificates of Deposit:** CDs of not more than \$100,000 per insured local institution.

Maturities of **any** CD cannot exceed 1 year from the date of purchase.

7. **Corporates:** Notes, bonds, and other unconditional obligations for the payment of money issued by corporations organized and operating in the United States that are purchased from a registered broker/dealer, at the time of purchase have a remaining term to maturity of no more than 5 years, and are rated by a nationally recognized rating service as “A” or its equivalent, or better. Money invested in corporate notes or bonds cannot exceed 20 percent of the total portfolio. If the rating of a corporate note or bond is reduced below the rating requirements mentioned above, it must be sold as soon as possible.
8. **Collateralized Mortgage Obligations (CMOs):** CMOs that are rated by a nationally recognized rating service as “AAA” or its equivalent, or better. Money invested in CMOs cannot exceed 20 percent of the total portfolio. If the rating of a CMO is reduced below the rating requirements mentioned above, it must be sold as soon as possible.
9. **Asset-Backed Securities (ABSs):** ABSs that are rated by a nationally recognized rating service “AAA” or its equivalent. Money invested in ABSs cannot exceed 20 percent of the total portfolio. If the rating of a ABS is reduced below the rating requirements mentioned above, it must be sold as soon as possible.

- 10. Repurchase Agreements (Repos):** Repos executed with a bank organized and operating or licensed to operate in the United States under federal or state law or a securities dealer which is a registered broker/dealer, designated by the Federal Reserve Bank of New York as a primary dealer in United States government securities, and in full compliance with all applicable capital requirements. Repo transactions shall be limited to maturities of not more than 90 days per transaction.

The Treasurer shall designate in advance, and shall maintain a list of, certain banks or broker/dealers which are approved by the Treasurer as counterparties for entering into repos with the County. Such firms shall be approved by the Treasurer pending a review as prescribed in section VIII. Such counterparties shall execute a Master Repurchase Agreement which has been approved by The Bond Market Association prior to being included on the list of approved Repo counterparties.

Securities purchased from and subject to resale to a bank or broker/dealer under the terms and conditions of a master repurchase agreement shall be delivered to and held in a custodial safekeeping account with the trust department of a bank insured by the Federal Deposit Insurance Corporation designated for this purpose by the Treasurer in accordance with NRS 355.172.

The securities so pledged and delivered for other than overnight investments shall be marked-to-market on a weekly basis and maintained, by a custodian bank, at an amount greater than a market value of 102 percent.

Repos are acceptable using any of the authorized investments in this section as collateral, as long as such investment is negotiable, has a viable trading market, and the exposure to any one issuer of the Repo does not exceed more than 10 percent of the total portfolio, including the securities lending portfolio. The underlying security for any Repo may not exceed 10 years at the time of purchase except for collateralized mortgage obligations.

The County's custodian bank(s), holding accounts in which repos are transacted, must enter into a written contract which requires the custodian to (1) disburse cash only upon receipt of the underlying securities, (2) notify the County when the securities that collateralize the repo are not maintaining the required 102 percent margin, (3) hold the securities separate from the assets of the custodian, and (4) report weekly the market value of the securities.

- 11. Collateralized Investment Contracts (Contracts):** Collateralized Investment Contracts must be fully collateralized, at all times, with securities issued by the Federal Government or agencies of the Federal Government. Contracts may be utilized on bond proceeds for which the amount of the principal of the original issuance was \$10,000,000 or more. The Contract must comply with the following specifications:
- A.** The collateral has a market value of at least 102 percent of the amount invested and any accrued unpaid interest thereon;
  - B.** The County receives a security interest in the collateral that is fully perfected and the collateral is held in custody for the County or its trustee by a third-party agent of the County which is a commercial bank authorized to exercise trust powers;
  - C.** The market value of the collateral is determined not less frequently than weekly and, if the ratio required by subsection A (102 percent) is not met, sufficient additional collateral is deposited with the agent of the County to meet that ratio within 2 business days after the determination; and
  - D.** The party with whom the Contract is executed is a commercial bank, or that party or a guarantor of the performance of that party is:
    - 1.** An insurance company which has a rating on its ability to pay claims of not less than “Aa2” by Moody’s Investors Service, Inc., or “AA” by Standard and Poor’s Ratings Services, or their equivalent; or
    - 2.** An entity which has a credit rating on its outstanding long-term debt of not less than “A2” by Moody’s Investors Service, Inc., or “A” by Standard and Poor’s Ratings Services, or their equivalent.

**Note:** All allowable investments are per NRS 350.659, 355.165, 355.170, and 356.120.

**X. SECURITIES LENDING AND FORWARD DELIVERY PROCEDURES**

**A. Securities Lending:** In accordance with the State of Nevada's NRS 355, the Treasurer may lend securities from the portfolio. The Treasurer may select and have the Board of County Commissioners approve one or more firms to provide securities lending. The procedures for securities lending are as follows:

1. The County receives collateral from the borrower in the form of cash or marketable securities that are authorized as permitted investments in this policy.
2. The collateral received from the borrower is at least a market value of 102 percent of the securities loaned.
3. Reinvestment of the collateral received for securities loaned may not be mismatched by more than 3 business days.
4. The securities lending agent must provide normal settlement liquidity (next day) for all securities loaned.
5. The securities lending agent must provide monthly accounting, performance, compliance, and management reports that will be submitted to the County Treasurer and County Manager.
6. The total of investments with collateral received must have an average weighted maturity of not more than 90 days.
7. A third party custodian shall be utilized on the loaned securities for all transactions.
8. The Bond Market Association's Master Securities Loan Agreement must be executed by all parties involved before any transactions are initiated.

**B. Forward Delivery Agreements (Agreements):** All permitted investments listed in section IX may be purchased or sold in a Forward Delivery Agreement. Agreements must be executed with a bank or financial institution rated "A2" or higher by Moody's and "A" or higher by Standard & Poor's. Forward (i.e., future) delivery of said permitted investments will be the property of the County and shall not constitute property of the estate of the provider within applicable bankruptcy or insolvency laws.

***XI. SECURITIES SAFEKEEPING AND CUSTODY***

Securities purchased by the County shall be delivered against payment (delivery vs. payment) and held in a custodial safekeeping account with the trust department of a third party bank insured by the Federal Deposit Insurance Corporation designated by the Treasurer for this purpose in accordance with NRS 355.172. A custody agreement between the bank and the County is required before execution of any transactions.

***XII. COLLATERALIZATION OF DEPOSITS***

All County money deposited with a bank, savings and loan, savings bank or credit union including checking accounts, savings accounts, NOW accounts, non-negotiable certificates of deposit, time deposits or similar type accounts provided by the financial institution in excess of the amount of federal insurance will be fully collateralized in accordance with the guidelines set forth in NRS 356.

***XIII. AUDIT AND INTERNAL CONTROL***

The Treasurer's Office shall employ internal controls designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of Clark County.

The custodian/safekeeping account, investment transactions, and records shall be audited by internal auditors independent of the Treasurer's Office and/or by outside independent auditors with a frequency prescribed by the Board of County Commissioners, the County Manager, or the Chief Financial Officer/Comptroller. The results of that audit shall be furnished to the Board of County Commissioners, the County Manager, and the Chief Financial Officer/Comptroller.

***XIV. MATURITY LIMITATIONS AND DIVERSIFICATION***

- A.** In no case shall more than 5 percent of the Clark County Investment Pool, including securities lending, be invested in obligations of any one issuer except direct obligations of the U.S. government or federal agencies. See section IX. Repos of any one issuer shall comprise no more than 10% of the Investment Pool (including the securities lending portfolio).
- B.** In order to ensure liquidity and to provide for the County's cash flow needs, 5 percent of the Clark County Investment Pool must mature within 90 days.
- C.** Security specific maturity limitations are outlined in section IX.
- D.** The average weighted duration of the Clark County Investment Pool portfolio will not exceed 2.5 years.

***XV. PERFORMANCE EVALUATION***

The County's investment strategy is defined as moderately active. Although the County is a daily short-term investor, the Treasurer has the ability to take advantage of longer-term market opportunities as they occur by analyzing projected cash flow, economic indicators, and market risks. The Treasurer will shorten or lengthen the average weighted duration of the portfolio, to capitalize on market opportunities and respond to economic conditions.

Given this strategy, the County Treasurer will benchmark the component portfolios which make up the Clark County Investment Pool to fixed income indices to determine whether competitive market returns are being achieved.

***XVI. TRAINING AND CONTINUING EDUCATION***

The County strives for professionalism and accountability in the investment of its funds. In order to assure the highest possible professional standards, the personnel involved in the investment function shall complete at least 16 hours per year of continuing education programs or other training in cash and investment management.

***XVII. TREASURER'S REVIEW***

The Treasurer shall regularly review the investment process to evaluate performance, policy, procedures, and compliance with NRS and County ordinances. The Treasurer shall regularly consult with the Chief Financial Officer/Comptroller regarding the investment process, including, but not limited to, a review of the investment policy and portfolio components.

***XVIII. REVIEW AND REVISIONS***

The Treasurer shall be responsible for reviewing and recommending revisions to this investment policy, subject to approval by the Board of County Commissioners. However, the Treasurer may at any time further restrict for investment the types of instruments, issuers, and maturities as may be appropriate from time to time. If approved by the State Legislature, previously unauthorized investment vehicles and procedures may be utilized by the County.

**Effective Date: July 1, 2004**

## **APPENDIX A**

### **CLARK COUNTY INVESTMENT POOL OPERATION**

The County Treasurer is responsible for receiving and disbursing public monies for programs and functions that come under the jurisdiction of the Clark County Board of Commissioners and certain other related governing bodies. As the designated investment officer of the County, the Treasurer has responsibility for these public monies pending their disbursement.

In order to improve the efficiency to the investment program, the Treasurer has established a general investment pool. The primary objectives of the investment pool are to combine the monies available for investment to:

1. Increase the size of each investment and lengthen the investment period to maximize the investment return.
2. Eliminate small and odd lot investments thereby reducing the number of investments and enhancing the productivity of County staff involved in the investment function.
3. Improve cash management through the identification of all idle monies thereby maximizing the interest income distributed to each participating fund.

When investing the monies of the investment pool the criteria established in the County Investment Policy will be strictly adhered to.

The investment pool will operate in the following manner:

1. Any office or department that receives money shall expeditiously deposit the money in the County's revenue account so that the money is available for investment purposes as soon as possible.
2. The monies held in revenue and expenditure accounts of the participating funds are transferred daily into the Concentration account. Any excess is transferred into a money market investment account providing for 100 percent investment of the monies at all times. In the case of an insufficient balance in the revenue account to cover expenditures of those funds participating in the pool, monies will be transferred from a money market investment account to the revenue account in an amount sufficient to cover those expenditures.

- 3.** Monies transferred to and invested in a money market investment account will remain in that account earning interest on a daily basis until the Treasurer identifies an investment with the desired maturity and an acceptable rate. When an investment is made, the funds will be withdrawn from a money market investment account and delivered to the financial institution simultaneously with the delivery of the security purchased or pledged for collateral.
- 4.** There will be no penalty imposed on any fund as a result of the withdrawal of monies to cover expenditures.
- 5.** The interest received on the investment pool investments will be allocated to the participating funds on a monthly basis as follows:

  - a.** Each day the fund balance of each participating is calculated by the general ledger system.
  - b.** The daily balances will be added together and divided by the number of days in the month to arrive at the average daily fund balance.
  - c.** The average daily fund balance for all participating funds will be added together to obtain a grand total.
  - d.** The average daily fund balance for each participating fund will be divided by the grand total of all funds to determine each fund's percentage of the total.
  - e.** The Treasurer will determine the total interest received on the investments of the investment pool.
  - f.** The interest income available for allocation as determined in (e) above is multiplied by each funds' percentage as determined in (d) above to arrive at the interest income each fund is entitled to receive. The Chief Financial Officer/Comptroller will then transfer the interest earnings from the general ledger holding account to the various funds.
  - g.** Each fund will be charged a portion of any transaction costs or administrative costs associated with operation of the investment pool based on that fund's pro-rata share of the pool's interest income.

- h.** Any fund may join or withdraw from the investment pool on the first day of any month provided the Treasurer receives notice of such intent to join or withdraw at least 30 days prior to the effective date. Approval must also be granted by the Board of County Commissioners for any fund to withdraw from the pool. Additionally, any amounts requested to be withdrawn from the pool that are deemed by the Treasurer to be excessive and substantially change the composition of the pool must be approved by the Board of County Commissioners.

## **APPENDIX B**

### **GLOSSARY OF CASH MANAGEMENT AND INVESTMENT TERMS**

The following is a glossary of key investment terms, many of which appear in the Association of Public Treasurers of the United States & Canada Model Investment Policy:

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

**Agency** - A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of a federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

**Amortization** - The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

**Asset-Backed Security** – A security backed by notes or receivables against assets other than real estate. Some examples are autos, credit cards, and home equity loans.

**Bankers Acceptances** - A short-term credit instrument created by a non-financial firm and guaranteed by a bank as to payment. Acceptances are traded at discounts from face value in the secondary market on the basis of the credit quality of the guaranteeing banks.

**Basis Point** - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

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

**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.

**Callable Bond** - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

**Call Price** - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

**Call Risk** - The risk to a bondholder that a bond may be redeemed prior to maturity.

**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**- A debt instrument issued by a bank that will pay interest, periodically or at maturity, and principal when it reaches maturity. Maturities range from a few weeks to several years.

**Collateralization** – A process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

**Collateralized (Guaranteed) Investment Contracts (CIC)** – A CIC is a fixed rate, fixed maturity contract similar to a bond that is typically collateralized by an insurance company. However, unlike a bond, a CIC is always carried or valued at par. CICs are primarily utilized for the investment of bond proceeds.

**Commercial Paper** - An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

**Convexity** - A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

**Corporate Security** – A debt obligation issued by a corporation.

**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.

**Credit Risk** - The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

**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.

**Delivery Versus Payment (DVP)** - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

**Derivative Security** - Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

**Discount** - The amount by which the par value of a security exceeds the price paid for the security.

**Discount Rate** – The interest rate member banks pay the Federal Reserve when the banks use securities as collateral.

**Diversification** - A process of investing assets among a range of security types by sector, maturity, and quality rating.

**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.

**Effective Return** - The sum of all investment income plus realized gains and losses.

**Fair Value** - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**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 Board (FRB)** - The governing body of the Federal Reserve System (12 regional Federal banks monitoring the commercial and savings banks in their regions). The board establishes policies on such key matters as reserve requirements and other regulations, sets the discount rate, and tightens or loosens the availability of credit in the economy.

**Floating Rate Securities** – A bond whose interest rate is adjusted according to the interest rates of other financial instruments. These instruments provide protection against rising interest rates, but pay lower yields than fixed rate notes.

## CLARK COUNTY, NEVADA INVESTMENT POLICY

**Governmental Account Standards Board (GASB)** – GASB is a non-profit entity that was organized in 1984 by the Financial Accounting Foundation (FAF) to establish standards of financial accounting and reporting for state and local governmental entities. Its standards guide the preparation of external financial reports of those entities.

**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. See "Treasury Bills, Notes, and Bonds."

**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.

**Inverted Yield Curve** - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of (or anticipation of) high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

**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 parameters formulated by an investor or investment manager for a portfolio of investment securities.

**Investment-grade Obligations** - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

**Liquidity** - An asset that can be converted easily and quickly into cash.

**Local Government Investment Pool (LGIP)** - An investment by local governments in which their money is pooled as a method for managing local funds.

**Mark-to-market** - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

**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.

## CLARK COUNTY, NEVADA INVESTMENT POLICY

**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. See "Weighted Average Maturity."

**Monetary Policy** – The way in which the money supply is managed by the Federal Reserve Board. The FRB manipulates the money supply either through open market transactions, member bank reserve requirements, or through changing the Fed Funds Rate or the Discount Rate.

**Money Market 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).

**Moody's Investors Service** - A company that as one of its services, analyzes and rates securities (similar to Standard and Poor's).

**Mortgage-backed Security** – A security, generally issued or guaranteed by a federal agency that is backed by a pool of mortgages.

**National Association of Securities Dealers (NASD)** - A self-regulatory organization of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

**Nominal Yield** - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

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

**Par** - Face value or principal value of a bond, typically \$1,000 per bond.

**Positive (Normal) Yield Curve** - A chart formation that illustrates short-term securities having lower yields than long-term securities.

**Premium** - The amount by which the price paid for a security exceeds the security's par value.

**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.

## CLARK COUNTY, NEVADA INVESTMENT POLICY

**Prospectus** - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

**Prudent Person Rule or Standard of Prudence** - An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

**Regular Delivery** - Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Money market funds are settled on a same day basis; government securities are settled on the next business day.

**Reinvestment Risk** - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

**Repurchase Agreement (repo or RP)** - An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

**Reverse Repurchase Agreement (Reverse Repo)** - An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

**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.

**Securities and Exchange Commission (SEC)** – The government agency that regulates and supervises the securities industry. The commission administers federal law, formulates and enforces rules to protect against malpractice, and seeks to ensure that companies provide the fullest possible disclosure to investors. All of the national exchanges and virtually all institutions in the securities industry fall under its jurisdiction.

**Securities Lending** - Securities lending is when entities transfer or “loan” their securities to broker-dealers in return for cash collateral and simultaneously agree to return the collateral in exchange for the same securities in the future. Entities then invest the cash received as collateral in allowable investments, such as commercial paper, at a rate that exceeds the “rebate” or loan rate paid to the broker-dealer for the cash collateral. These transactions are structured to result in earning an incremental income on a portion of the investment portfolio. The amount of securities loaned from the portfolio and the income generated is dependent upon market conditions.

**Standard and Poor’s (S&P)** – A company that as one of its services, analyzes and rates securities (similar to Moody’s Investors Service).

**Swap** - Trading one asset for another.

**Total Return** - The sum of all investment income plus realized and unrealized gain and losses.

**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 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 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.

**Uniform Net Capital Rule** - SEC Rule 15C3-1 outlining capital requirements for broker/dealers who must maintain a maximum ratio of indebtedness to liquid capital of 15 to 1. Indebtedness covers all money owed to a firm, including margin loans, and commitments to purchase securities (one reason new issues are spread among members of underwriting syndicates). Liquid capital includes cash and assets easily converted to cash.

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

**"Volatility Risk" Rating** - A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns ("aaa" by S&P; "V-1" by Fitch) to those that are highly sensitive with currently identifiable market volatility risk ("ccc-" by S&P, "V-10" by Fitch).

**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 397 days.

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

**Yield-to-call (YTC)** - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

**Yield Curve** - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

**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.

**Zero-coupon Securities** - Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

