

**REGIONAL TRANSPORTATION COMMISSION OF WASHOE COUNTY (RTC)
INVESTMENT COMMITTEE MEETING**

Wednesday

11:00 a.m.

January 31, 2024

PRESENT:

**Christian Schonlau, RTC Director of Finance/CFO
Bill Thomas, AICP, RTC Executive Director
Jelena Williams, RTC Financial Manager
Andy Chao, RTC Senior Accountant (Alternate)
Annette Gaston, Senior Managing Consultant, PFM Asset Management LLC**

ABSENT:

Nelia Belen, RTC Accountant

The RTC Investment Committee Meeting was held on January 31, 2024 at 11:00 a.m. via Zoom and was called to order by Christian Schonlau. The following business was conducted:

Item 1 APPROVAL OF AGENDA

Christian Schonlau opened the meeting and asked for a motion for approval of the Agenda. Jelena Williams moved to approve and Andy Chao seconded. Motion passed.

Item 2 PUBLIC INPUT

Christian Schonlau asked if there were any public comments. As there were none, we moved onto the approval of the January 31, 2024 meeting minutes.

Item 3 APPROVAL OF MINUTES

Christian Schonlau asked if everyone had a chance to look at the minutes, and if there were any changes or comments? As there were no changes or comments, Jelena Williams moved for approval of the minutes, with Andy Chao seconding. Motion passed.

***Item 4 DISCUSSION OF THE RTC DEBT SERVICE RESERVE INVESTMENT
PERFORMANCE AND POSSIBLE APPROVAL OF A RECOMMENDATION
TO BE PRESENTED TO THE RTC BOARD OF DIRECTORS***

Annette Gaston from PFM Asset Management introduced herself as our new Senior Managing Consultant and everyone welcomed her. She then presented the attached presentation and summarized the Market Update.

Now speaking on the Account Summary. The Fed will likely pivot and we'll potentially see the first 25 point basis rate cut in March. With the idea of keeping a little bit on the shorter 1-2 year duration, there was only about 4% of the portfolio invested there. With some of the trades, we targeted that 6 month duration, but I think we were really trying to get an idea of not having too much too far out. We manage safety and liquidity first and foremost, so once those are met, keeping that liquidity component on our radar and then the return component. With 65% of the portfolio at the end of December, I think the mentality was "don't overload that long end" in the event that there may need to be some liquidity. As we see a lot of that roll forward and shorten in duration, we'll redeploy that longer knowing that we have some on the shorter end coming due.

Christian Schonlau, thank you for that. Something as an agency that we want to talk about with you is that our need for liquidity is rather low at the moment. We have a healthy balance and don't anticipate that changing in the next 2-3 years. Just some thoughts on strategy for the next 2-3 years, maybe we want to push a little harder on those longer-term investment types.

Annette Gaston, thank you for that. I will share that with the portfolio manager and my team and let them know we met, and as far as the liquidity, there is nothing immediate on the horizon and you'd feel more comfortable investing out a bit longer in the over 2 year duration, if we can look for some opportunity and value further along the curve.

Christian Schonlau, thank you, it's a rare opportunity we have a high interest rate environment with almost certain falls.

Annette Gaston, we haven't been in this type of environment in a long time, so I'm with you. Your strategy and thinking through that is absolutely correct.

A little bit on the Sector Allocation, we looked at treasuries and agencies, not too much to explain, but just looking at the difference, I talked about 2nd quarter where we saw the mix of 53% in treasuries and then agencies. Here is where we saw some of that roll off into the portfolio and here is where we shifted. From 3rd to 4th Quarter, nothing has changed, but 2nd to 3rd Quarter is where we saw the majority and most significant change.

Looking at the Accrual Basis Earnings. This last quarter earned \$66,000, then when we think about the last year it was \$178,000. When we look at the last 5-years, because it sums up everything we've seen, the 5-year earnings have been very strong, over \$500,000 in the 5-year alone and then in the last 10-years \$1.2 million. So, some strong earnings overall. Christian, to your point, we're in a place where yields are a lot higher, which does translate into high earnings as well and taking the opportunity to capture that value.

Are there any questions? This is my first meeting, so I want to make sure if there is anything I should be doing or following, please let me know.

Christian Schonlau, I think you nailed it. I think this is pretty typical of how our meetings go, high level market overview, quick summary of our Portfolio, reasons and actions behind our trading strategies and then a summary of our balances.

Annette Gaston, thank you so much. I'll speak with the portfolio manager following this and let them know what we discussed and then if I have any questions or they have questions, I'll reach back out, but I'll let them know with some of those maturities that are coming up and get an idea of some of those shorter durations.

Christian Schonlau, they did spread toward the longer end, but I have a hard time understanding why to keep anything in the 0-6 month range if we know that's going to get decreasing returns in the short term.

Annette Gaston, I will say that with an inverted yield curve in that 0-6 month range, we still have quite a bit of value there, but as that matures to your point exactly, looking to redeploy that longer, especially if there is not a liquidity need on the horizon, I think makes the most sense.

Christian Schonlau asked for a motion to accept report. Jelena Williams motioned to accept, Andy Chao seconded, and Motion carried unanimously.

Item 5 MEMBER ITEMS

Christian Schonlau asked if anyone had any member items. Being none, we moved onto public input.

Item 6 PUBLIC INPUT

Christian Schonlau asked if there was any public input. Being none, we moved to adjournment.

Item 7 ADJOURNMENT

Christian Schonlau asked for a motion for adjournment. Jelena Williams gave a motion to adjourn, which was seconded by Andy Chao. Motion carried unanimously and meeting was adjourned.

The meeting adjourned at 11:20 a.m.

Christian Schonlau
Director of Finance/CFO
Regional Transportation Commission



WASHOE COUNTY REGIONAL TRANS COMMISSION

Investment Performance Review For the Quarter Ended December 31, 2023

Client Management Team

Annette Gaston, Senior Managing Consultant

PFM Asset Management LLC

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San Francisco, CA 94111-5411
480-271-0432

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Agenda

- Market Update
- Account Summary
- Portfolio Review

Market Update

Current Market Themes



- ▶ The U.S. economy is characterized by:
 - ▶ Economic resilience but expectations for a slowdown
 - ▶ Cooling inflation that still remains above the Federal Reserve's ("Fed") target
 - ▶ The labor market coming into better balance
 - ▶ Consumers that continue to support growth through spending



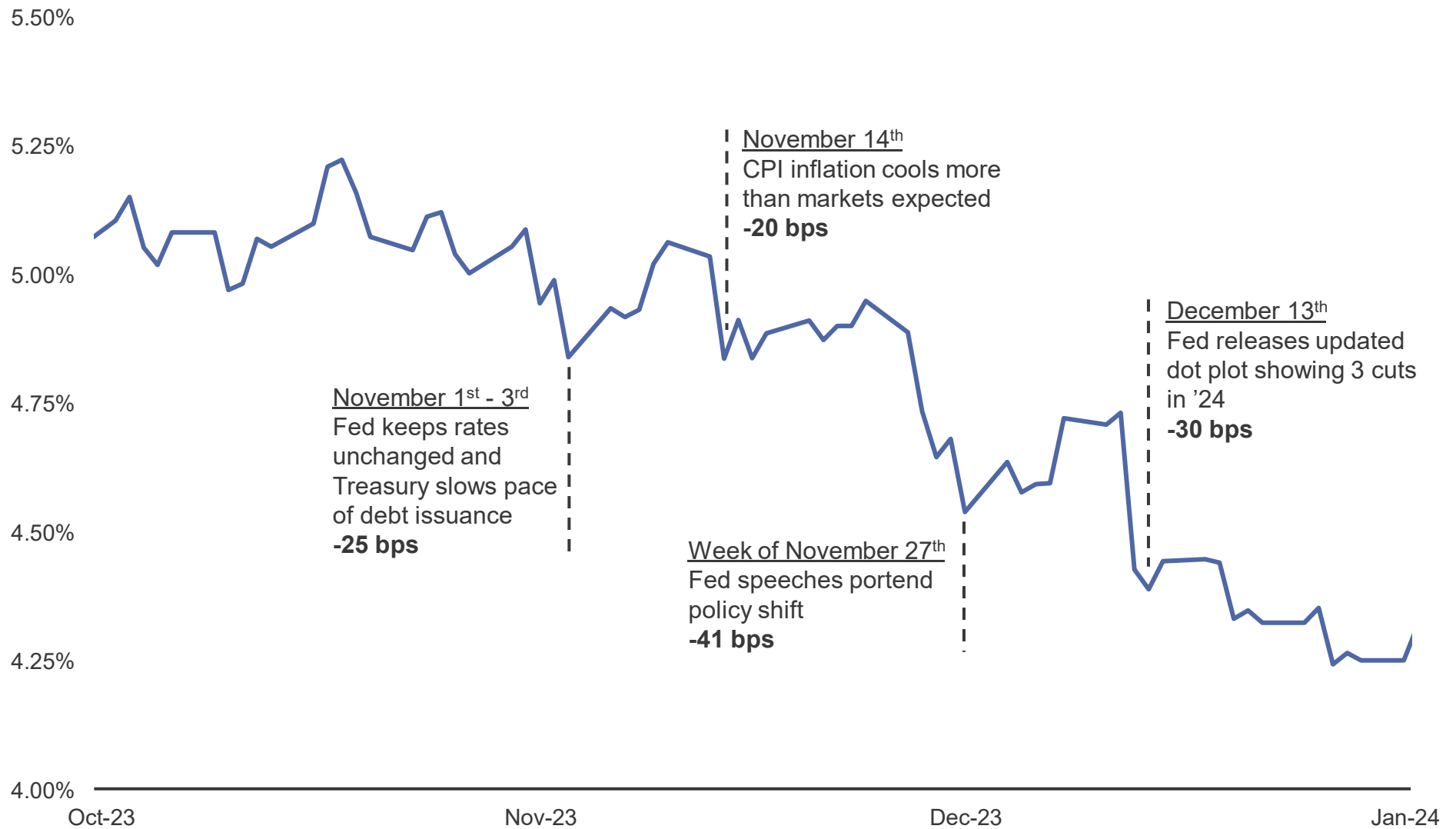
- ▶ Federal Reserve signals end to rate hiking cycle
 - ▶ Fed projected to cut the short-term Fed funds rate by 75 basis points by December 2024, with the overnight rate falling to 4.50% to 4.75%
 - ▶ Markets are pricing a more aggressive 6 rate cuts by year end
 - ▶ Fed officials reaffirm that restoring price stability is the priority



- ▶ Treasury yields ended the quarter materially lower
 - ▶ After peaking in October, yields reversed course on dovish Fed pivot
 - ▶ Yield curve inversion persisted throughout the rally
 - ▶ Credit spreads narrowed sharply on increased expectations for a soft landing

Rates Fall on Softer Inflation and Fed Pivot

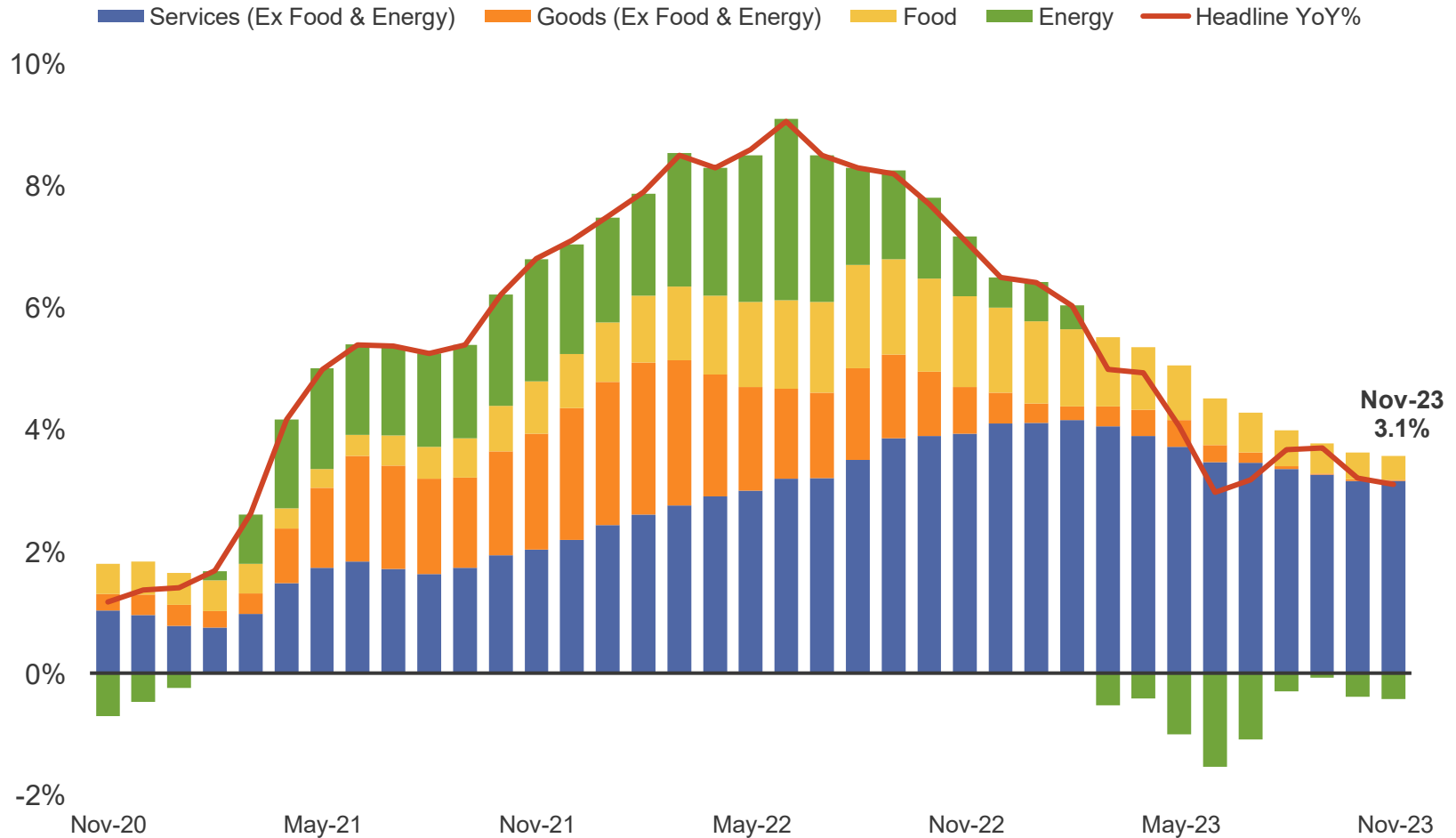
2-Year US Treasury Yield



Source: Bloomberg, as of 12/31/2023.

Inflation Continues to Trend Lower

Consumer Prices (CPI) Year-over-Year Change in Top-Line Contributions



Lower energy and goods prices help to offset increases in wage-driven services costs

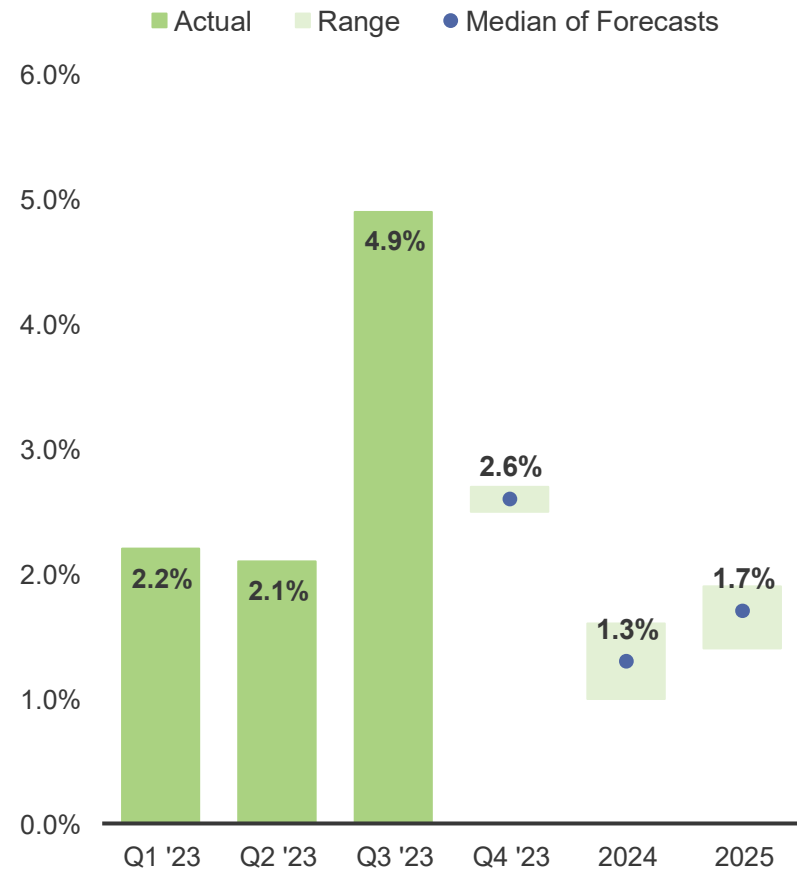
Source: Bloomberg, as of November 2023.

Balanced Risks Support Soft Landing

| | | | |
|-----------------------------|---|---|---|
| <i>Employment</i> | ○ | ○ | ● |
| <i>Wages</i> | ○ | ○ | ● |
| <i>Consumer</i> | ○ | ● | ○ |
| <i>Inflation</i> | ○ | ● | ○ |
| <i>Housing</i> | ● | ○ | ○ |
| <i>Manufacturing</i> | ● | ○ | ○ |
| <i>Inverted yield curve</i> | ○ | ● | ○ |
| <i>Credit spreads</i> | ○ | ○ | ● |
| <i>Fed Policy</i> | ○ | ● | ○ |

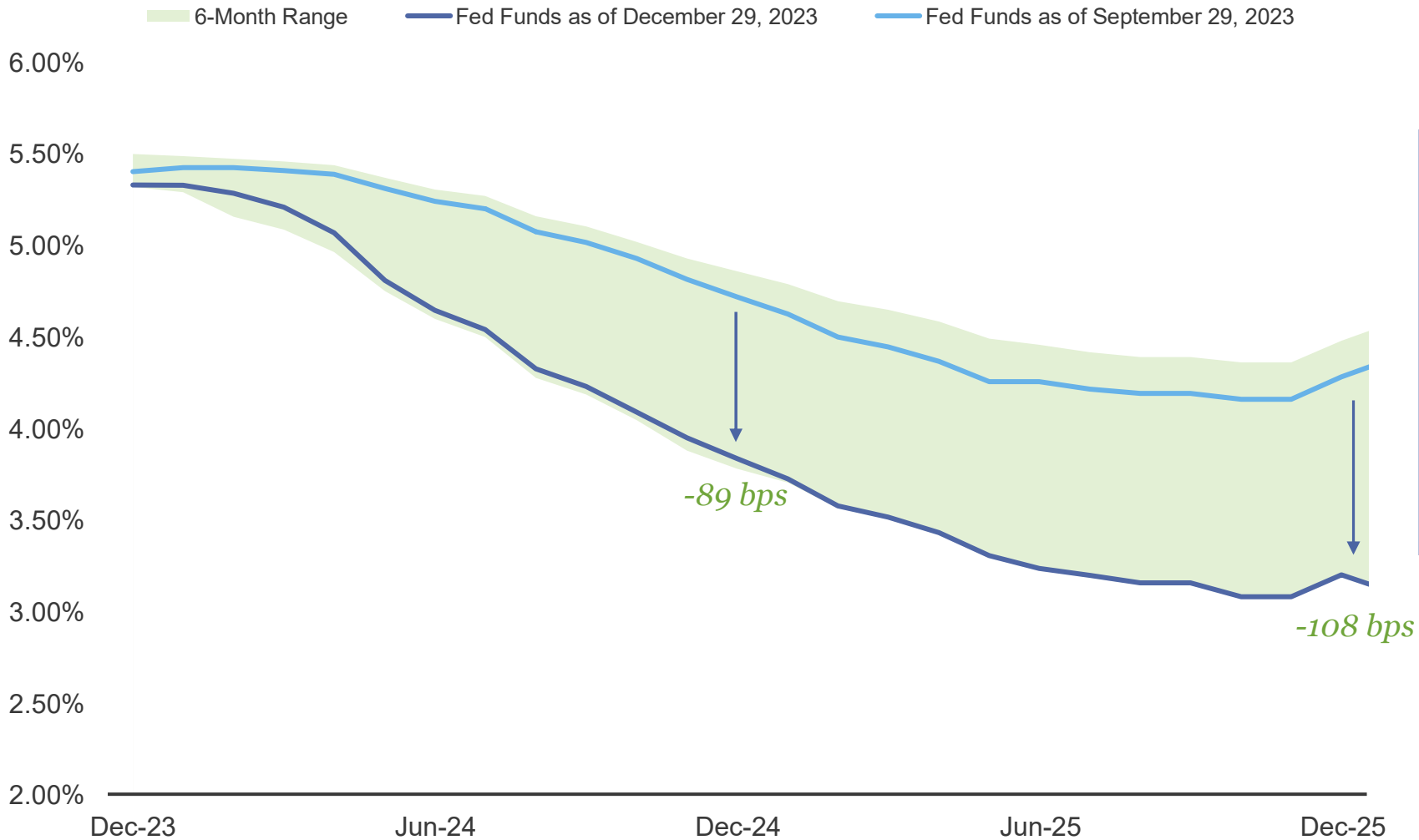
Source: Bloomberg, Economist Forecasts.

U.S. GDP Forecasts Annualized Rate



Market Expects Lower Rates

Implied Fed Funds Rate

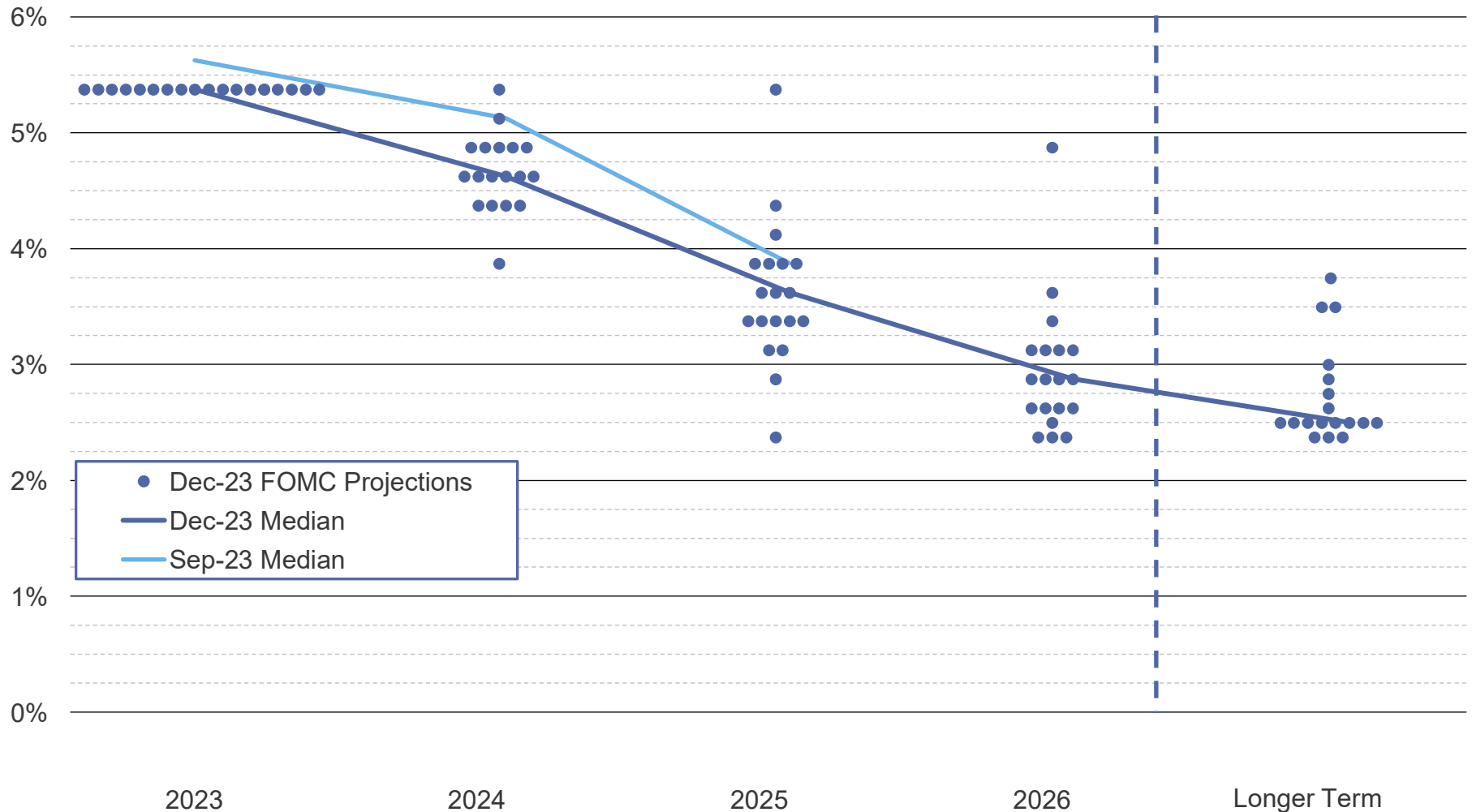


Expectations for Fed Funds have reached their most dovish levels in 6 months in response to falling inflation, Fed pivot and moderating labor market

Source: Bloomberg, as of December 2023.

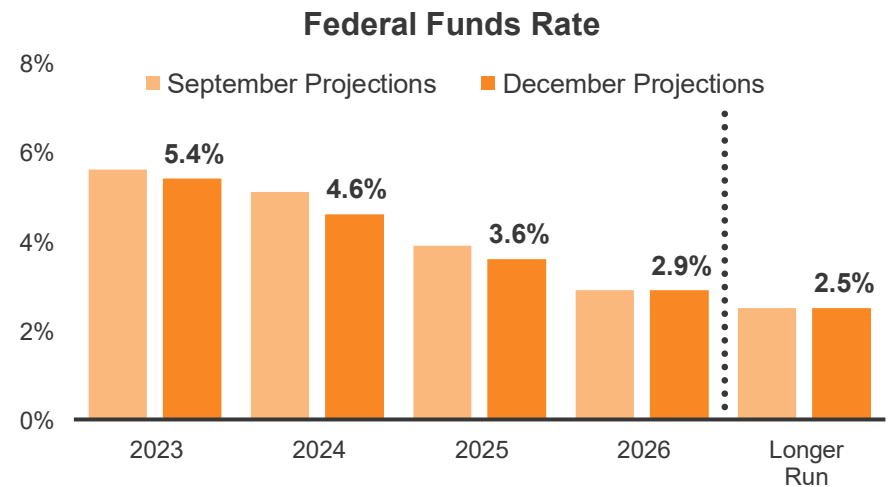
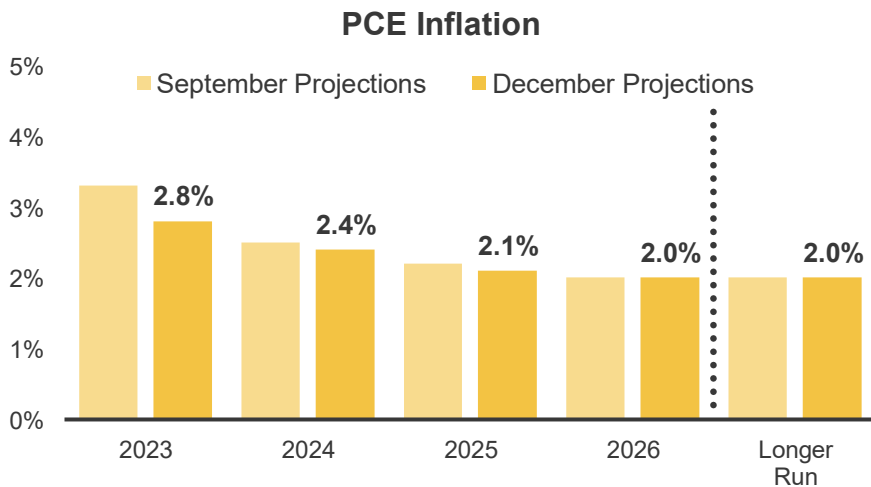
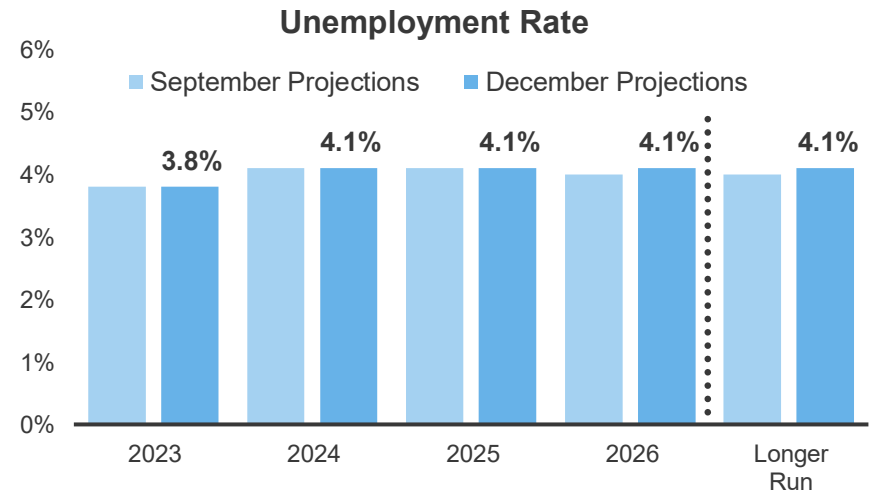
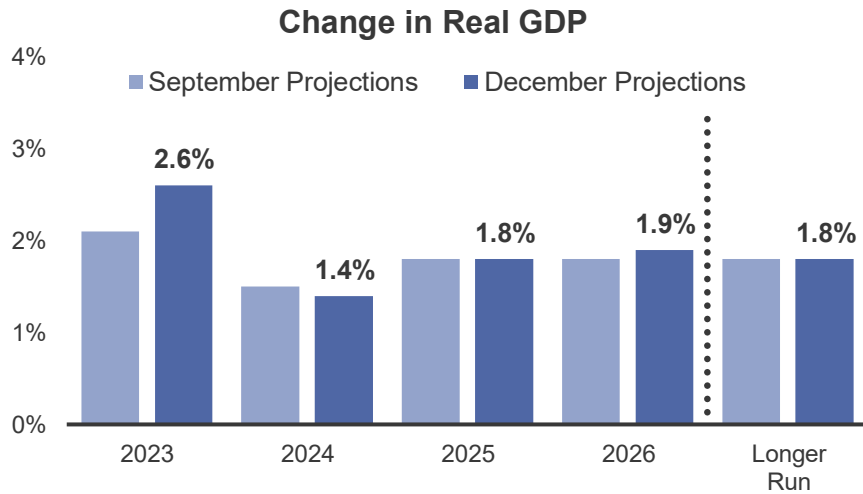
Fed's Updated "Dot Plot" Also Shows Lower Rate Trajectory

Fed Participants' Assessments of 'Appropriate' Monetary Policy



Source: Federal Reserve. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end.

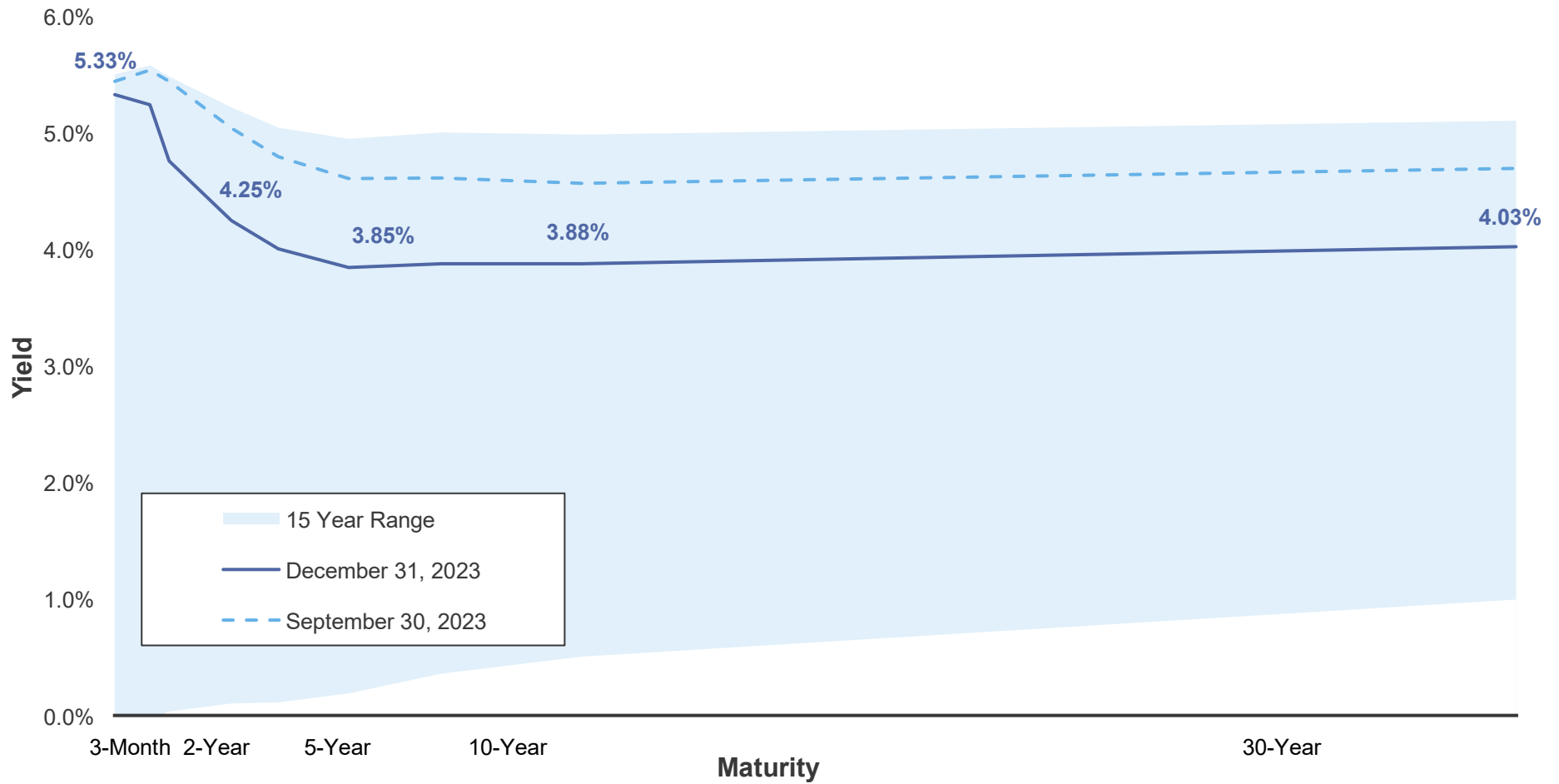
Federal Reserve Projects a Soft Landing



Source: Federal Reserve, latest economic projections as of December 2023.

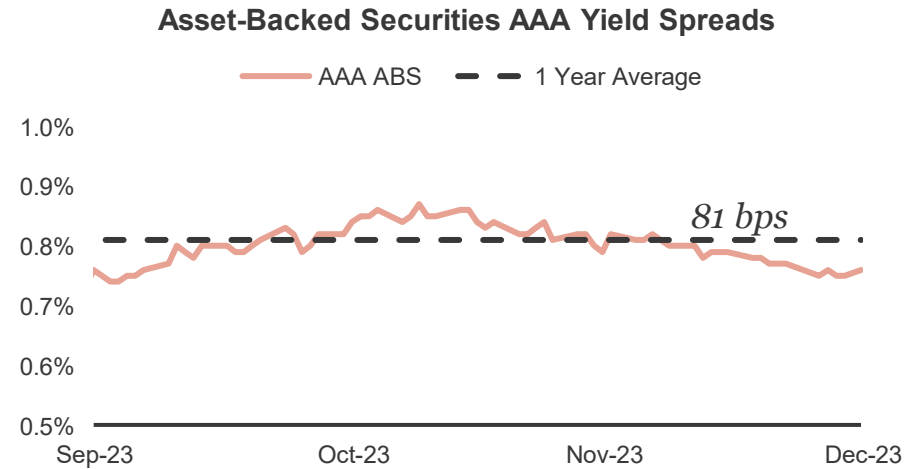
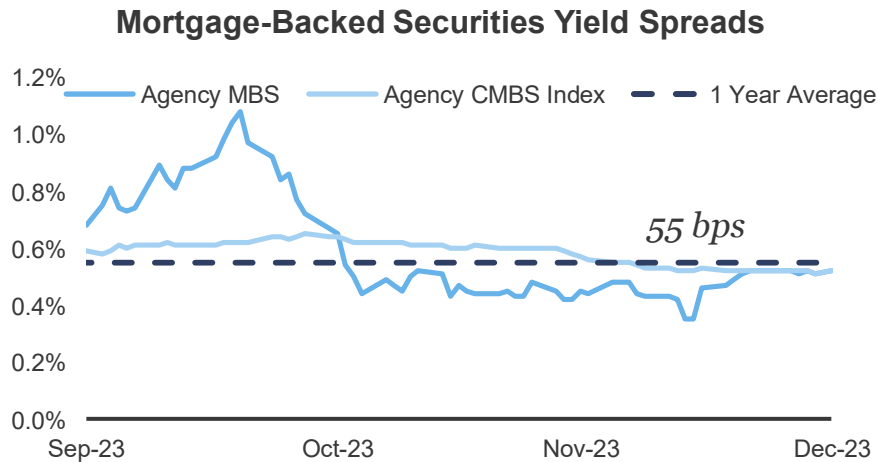
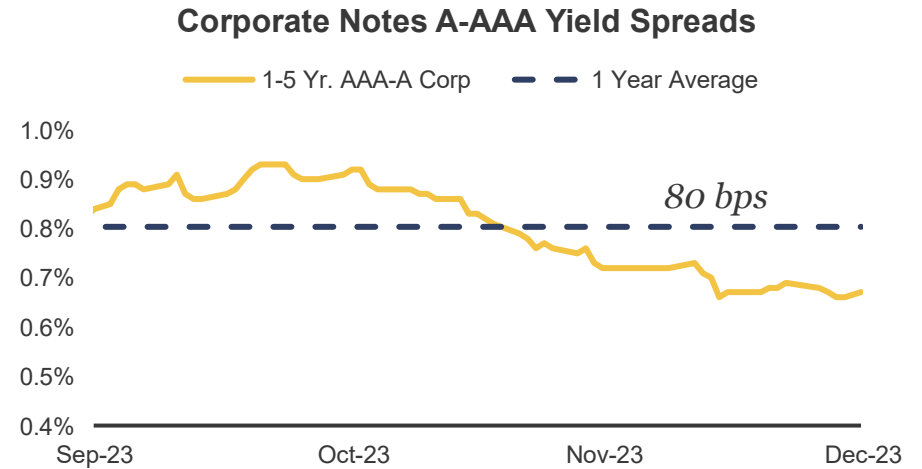
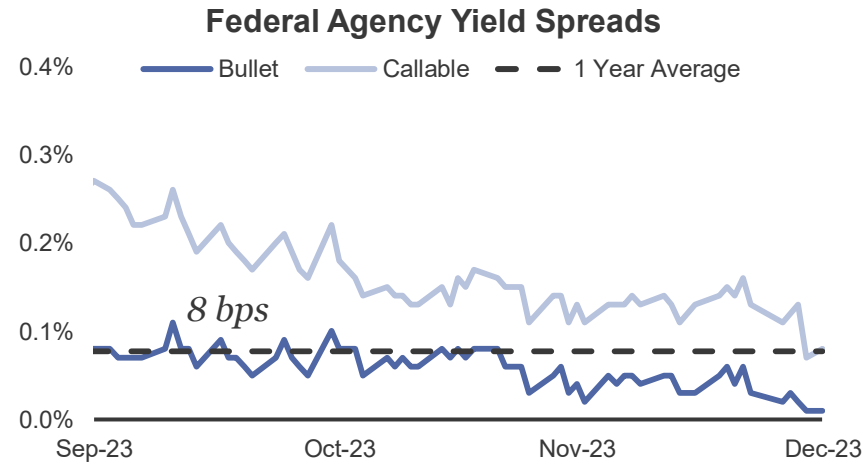
Interest Rates Moderate But Remain High

U.S. Treasury Yield Curve



Source: Bloomberg, as of December 31, 2023.

Sector Yield Spreads

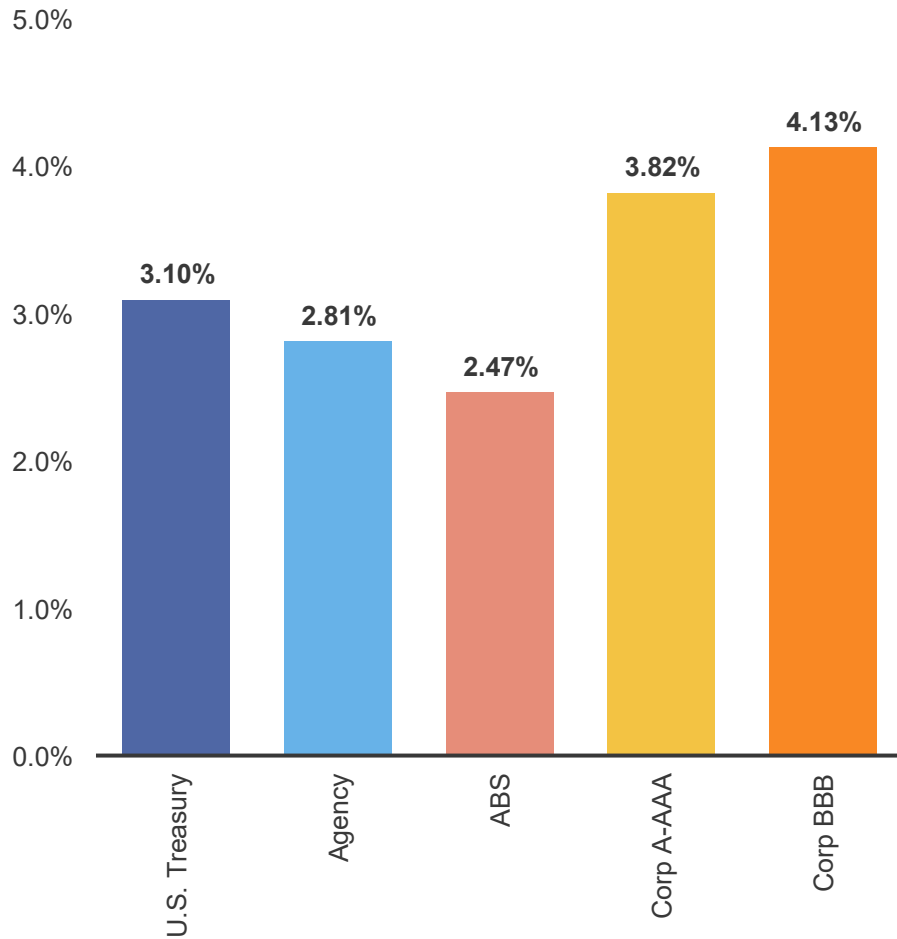


Source: ICE BofA 1-5 year Indices via Bloomberg, MarketAxess and PFMAM as of December 31, 2023. Spreads on ABS and MBS are option-adjusted spreads of 0-5 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed Securities and represented by the ICE BofA Agency CMBS Index.

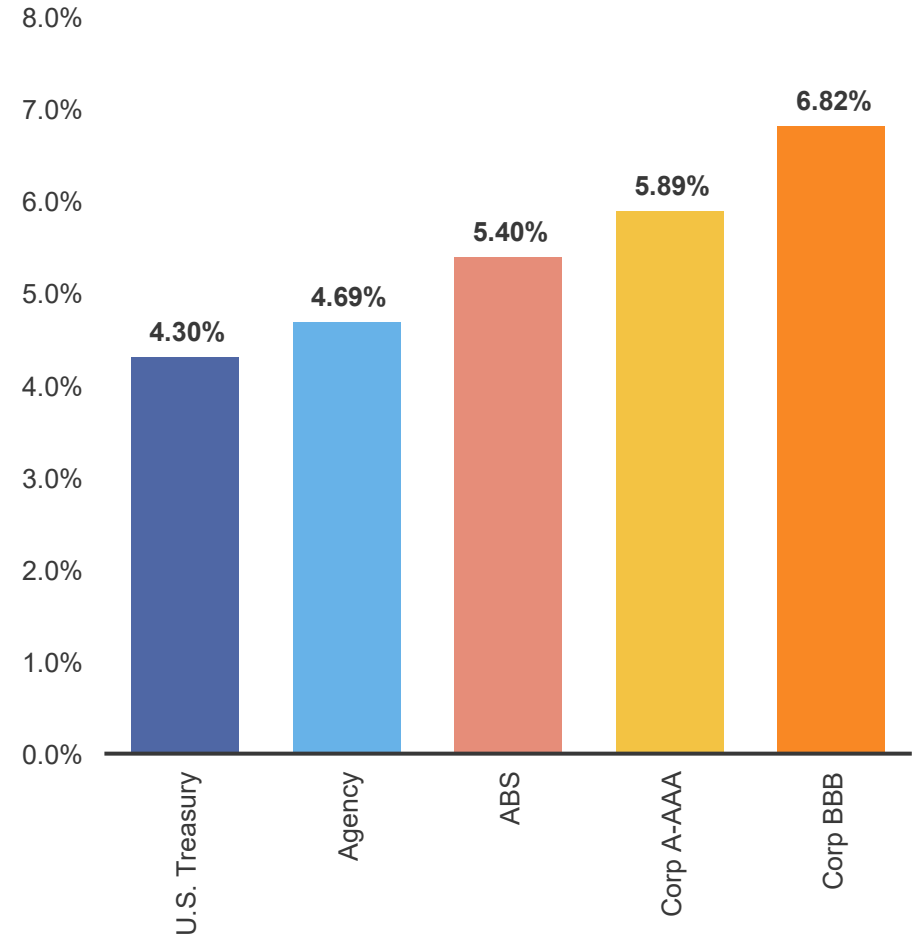
Fixed-Income Markets in 4Q 2023

1-5 Year Indices

1-5 Year Indices Quarterly Returns



1-Year Return



Source: ICE BofA Indices. ABS indices are 0-5 year, based on weighted average life. As of December 31, 2023.

Account Summary

Fixed-Income Sector Commentary – 4Q 2023

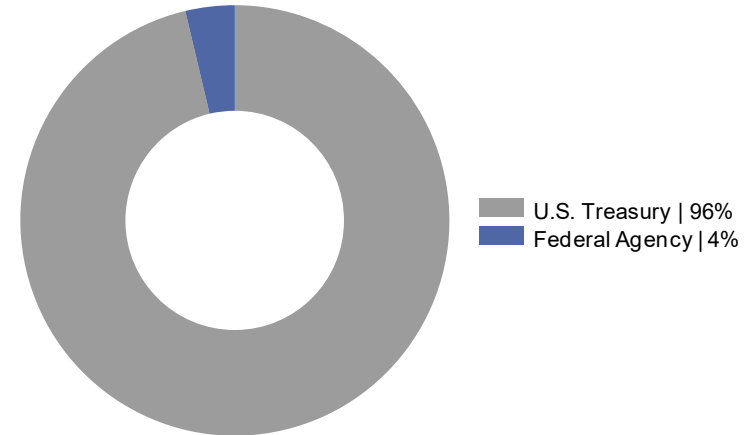
- ▶ **U.S. Treasuries** yields are lower by 70-80 basis points over the quarter for maturities greater than one year as markets have now priced five to six rate cuts in 2024. While the curve remains inverted, yield levels remain above their 30-year averages.
- ▶ **Federal agency** spreads remained tight and issuance was light. As a result, value during Q4 was limited. Excess returns of callable structures outperformed bullets as spreads narrowed from historical wides.
- ▶ **Supranational** spreads, similar to agencies, remained low and range-bound on limited supply, favoring opportunities in other sectors.
- ▶ **Taxable Municipal** issuance remained heavily oversubscribed due to a lack of supply. The secondary market had limited opportunities to pick up yield versus similarly-rated corporates.
- ▶ **Investment-Grade Corporates** were one of the best performing fixed-income sectors for both Q4 and calendar year 2023. After a brief broad market de-risking in late September and most of October, the IG corporate sector did an about-face and finished the year with spreads rallying to their lowest levels in over nine months. Strong economic conditions, the increasing perception of a soft landing, and robust demand for the sector fueled the market rally, as longer duration and lower quality issuers outperformed.
- ▶ **Asset-Backed Securities** generated positive excess returns in Q4, although not to the same extent as corporates. While spreads tightened into year-end, the relatively muted rally vs. other non-government sectors possibly underscores the market expectation for modestly weaker consumer fundamentals moving forward. Incremental income from the sector remains attractive and our fundamental outlook for the economy is supportive for the sector.
- ▶ **Mortgage-Backed Securities** were one of the best performing investment grade sectors in Q4 despite a roller coaster pathway. After widening in October to their highest levels since the spring of 2020, spreads proceeded to rally into year-end, finishing near nine-month lows.
- ▶ **Short-term credit** (commercial paper and negotiable CDs) spreads tightened over the quarter and the credit curve flattened modestly. Shorter-term maturities are less attractive and we prefer issuers with maturities between 6 and 12 months.

Consolidated Summary

Account Summary

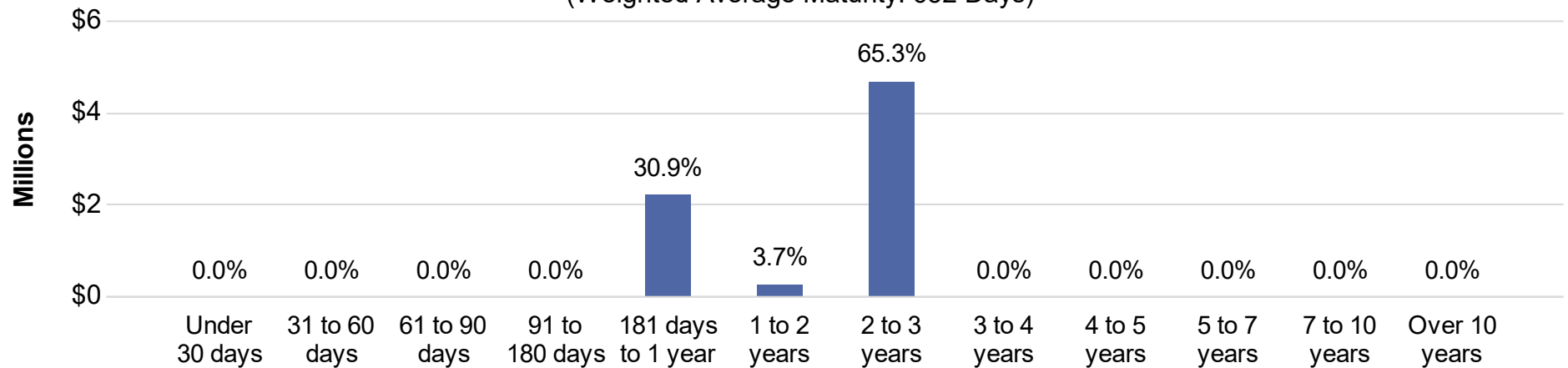
| | |
|------------------------------|--------------------|
| PFMAM Managed Account | \$8,257,864 |
| Total Program | \$8,257,864 |

Sector Allocation



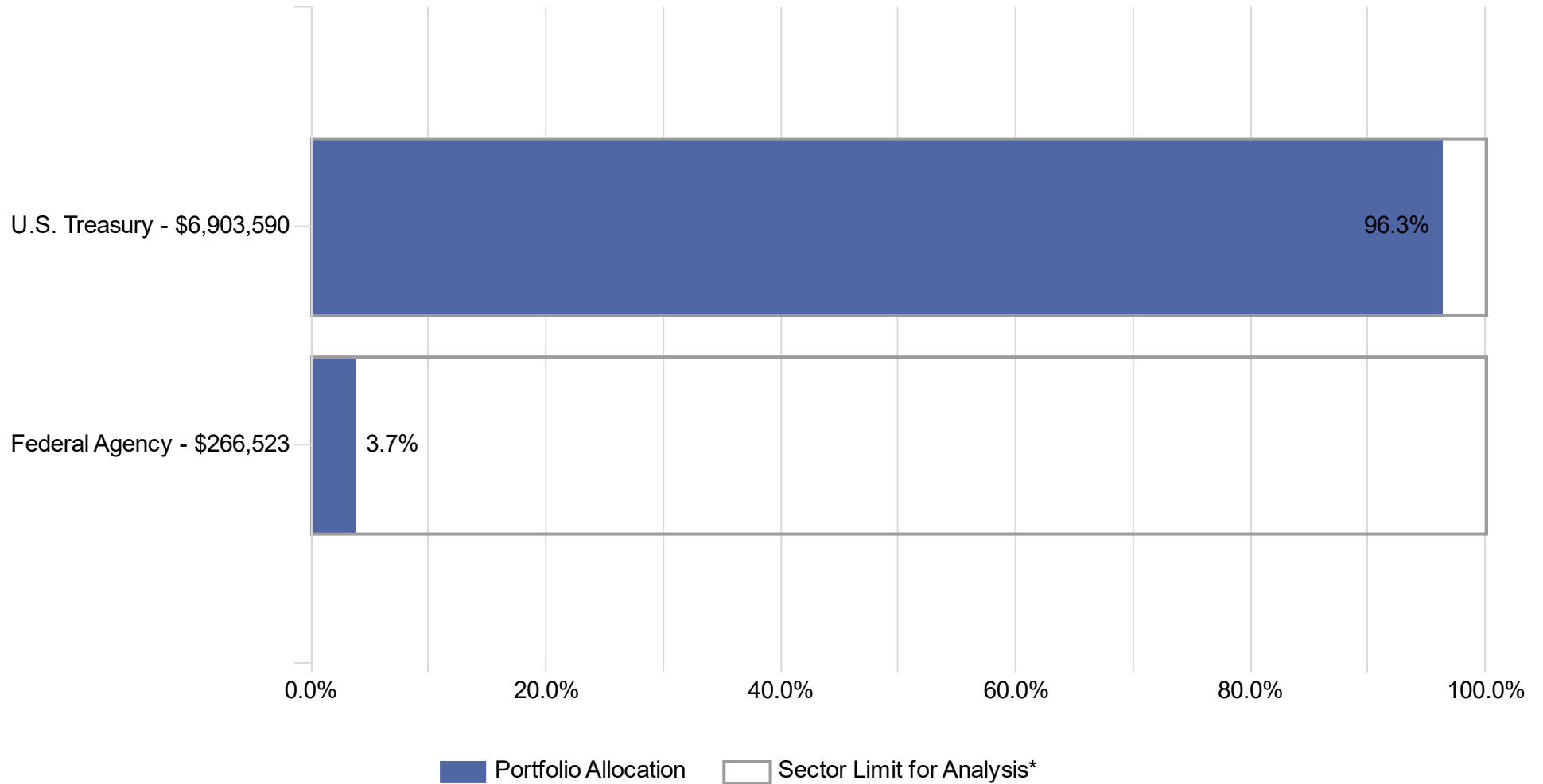
Maturity Distribution

(Weighted Average Maturity: 652 Days)



1. Account summary and sector allocation include market values, accrued interest, and overnight balances. Maturity distribution includes market values and excludes accrued interest and overnight balances

Sector Allocation Analytics



*For informational/analytical purposes only and is not provided for compliance assurance. Includes accrued interest.
Sector Limit for Analysis is as derived from our interpretation of your most recent Investment Policy as provided.

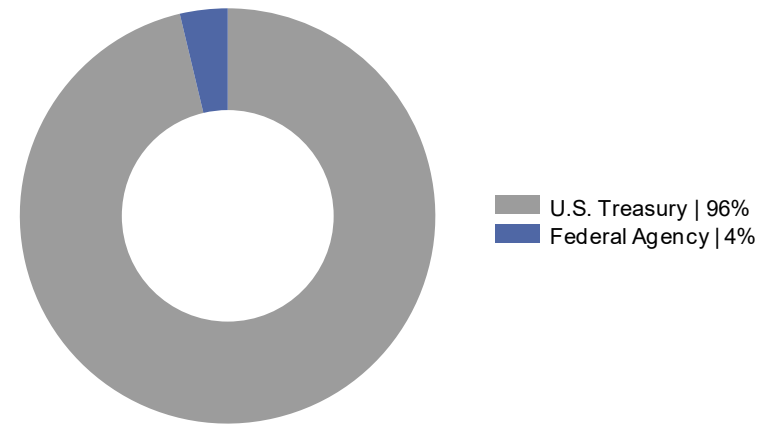
Portfolio Review:
WASHOE RTC BOND PROCEEDS AGG PORTFOLIO

Portfolio Snapshot - WASHOE RTC BOND PROCEEDS AGG PORTFOLIO¹

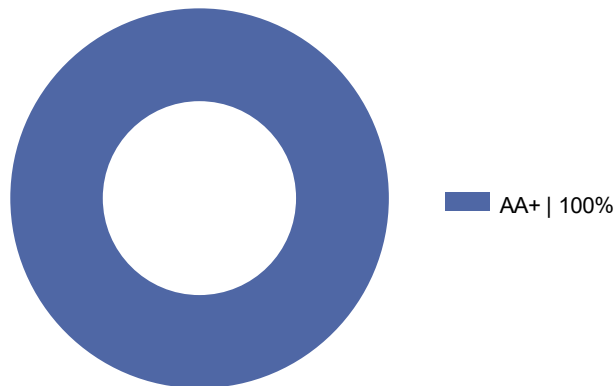
Portfolio Statistics

| | |
|-------------------------------------|----------------|
| Total Market Value | \$8,257,863.96 |
| <i>Securities Sub-Total</i> | \$7,128,618.12 |
| <i>Accrued Interest</i> | \$41,495.35 |
| <i>Cash</i> | \$1,087,750.49 |
| Portfolio Effective Duration | 1.76 years |
| Yield At Cost | 2.91% |
| Yield At Market | 4.46% |
| Portfolio Credit Quality | AA |

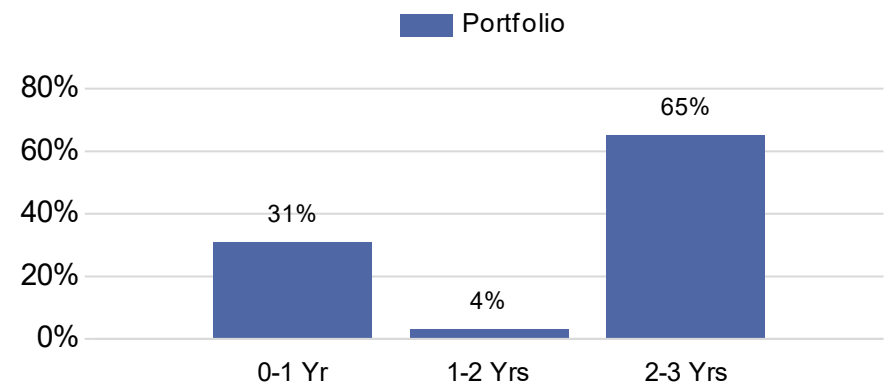
Sector Allocation



Credit Quality - S&P²



Duration Distribution

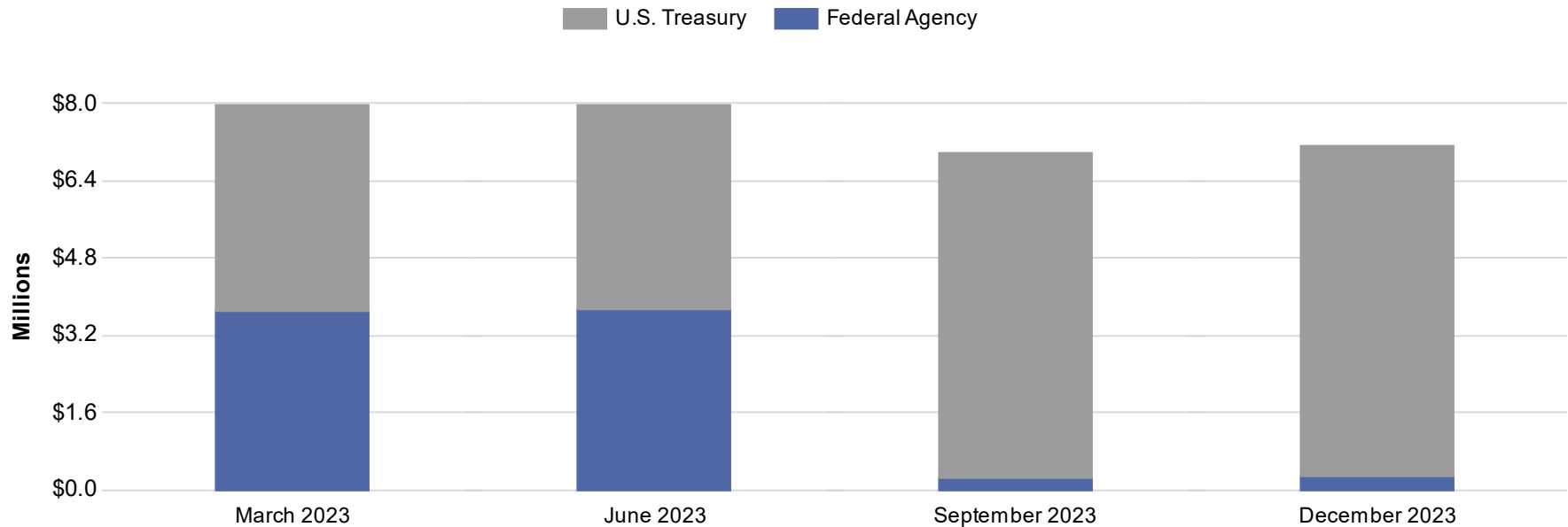


1. Yield and duration calculations exclude cash and cash equivalents. Sector allocation includes market values and accrued interest.

2. An average of each security's credit rating was assigned a numeric value and adjusted for its relative weighting in the portfolio.

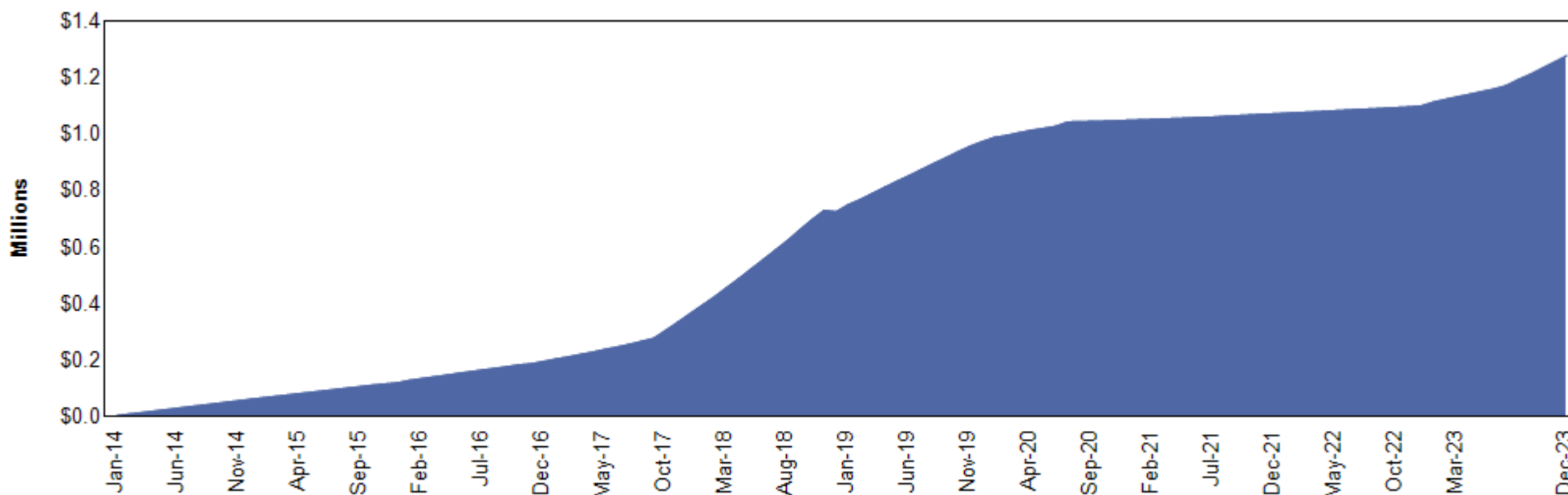
Sector Allocation Review - WASHOE RTC BOND PROCEEDS AGG PORTFOLIO

| Security Type | Mar-23 | % of Total | Jun-23 | % of Total | Sep-23 | % of Total | Dec-23 | % of Total |
|----------------|--------------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|
| U.S. Treasury | \$4.2 | 53.3% | \$4.2 | 52.9% | \$6.7 | 96.3% | \$6.9 | 96.3% |
| Federal Agency | \$3.7 | 46.7% | \$3.7 | 47.1% | \$0.3 | 3.7% | \$0.3 | 3.7% |
| Total | \$7.9 | 100.0% | \$8.0 | 100.0% | \$7.0 | 100.0% | \$7.1 | 100.0% |



Market values, excluding accrued interest. Only includes fixed-income securities held within the separately managed account(s) and LGIPs managed by PFMAM. Detail may not add to total due to rounding.

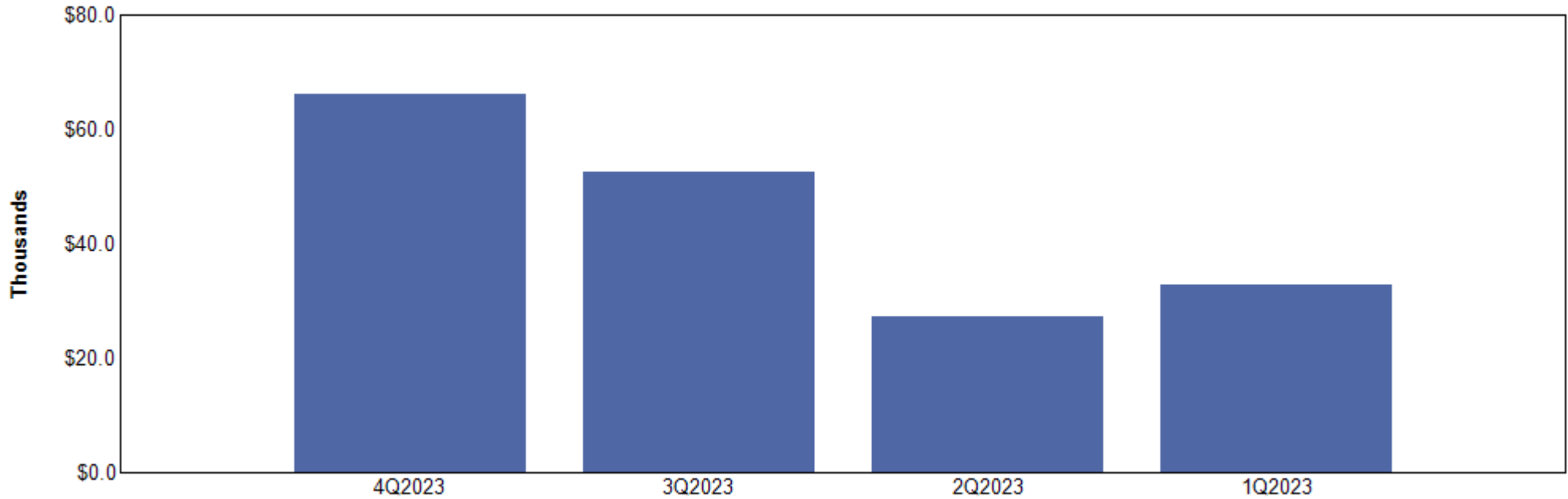
Accrual Basis Earnings - WASHOE RTC BOND PROCEEDS AGG PORTFOLIO



| Accrual Basis Earnings | 3 Months | 1 Year | 3 Years | 5 Year | 10 Year ¹ |
|--|-----------------|------------------|------------------|------------------|----------------------|
| Interest Earned ² | \$38,207 | \$103,464 | \$184,722 | \$433,958 | \$1,197,057 |
| Realized Gains / (Losses) ³ | - | - | \$1,564 | \$9,695 | (\$25,476) |
| Change in Amortized Cost | \$27,906 | \$75,150 | \$42,619 | \$108,697 | \$107,080 |
| Total Earnings | \$66,113 | \$178,614 | \$228,904 | \$552,350 | \$1,278,661 |

1. The lesser of 10 years or since inception is shown. Performance inception date is March 31, 2012.
 2. Interest earned calculated as the ending accrued interest less beginning accrued interest, plus net interest activity.
 3. Realized gains / (losses) are shown on an amortized cost basis.

Accrual Basis Earnings - WASHOE RTC BOND PROCEEDS AGG PORTFOLIO



| Accrual Basis Earnings | 4Q2023 | 3Q2023 | 2Q2023 | 1Q2023 |
|--|-----------------|-----------------|-----------------|-----------------|
| Interest Earned ¹ | \$38,207 | \$28,009 | \$14,990 | \$22,258 |
| Realized Gains / (Losses) ² | - | - | - | - |
| Change in Amortized Cost | \$27,906 | \$24,527 | \$12,269 | \$10,448 |
| Total Earnings | \$66,113 | \$52,536 | \$27,259 | \$32,706 |

1. Interest earned calculated as the ending accrued interest less beginning accrued interest, plus net interest activity.

2. Realized gains / (losses) are shown on an amortized cost basis.

Portfolio Holdings and Transactions

Issuer Diversification

| Security Type / Issuer | Market Value (%) | S&P / Moody's / Fitch |
|------------------------|------------------|-----------------------|
| U.S. Treasury | 96.3% | |
| UNITED STATES TREASURY | 96.3% | AA / Aaa / AA |
| Federal Agency | 3.7% | |
| FREDDIE MAC | 3.7% | AA / Aaa / AA |
| Total | 100.0% | |

Ratings shown are calculated by assigning a numeral value to each security rating, then calculating a weighted average rating for each security type / issuer category using all available security ratings, excluding Not-Rated (NR) ratings. For security type / issuer categories where a rating from the applicable NRSRO is not available, a rating of NR is assigned. Includes accrued interest and excludes balances invested in overnight funds.

Managed Account Detail of Securities Held

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | S&P Rating | Moody's Rating | Trade Date | Settle Date | Original Cost | YTM at Cost | Accrued Interest | Amortized Cost | Market Value |
|---|-----------|-----------------------|---------------|-------------------|---------------|----------------|-----------------------|----------------|---------------------|-----------------------|-----------------------|
| U.S. Treasury | | | | | | | | | | | |
| US TREASURY NOTES DTD 07/31/2019 1.750% 07/31/2024 | 912828Y87 | 2,245,000.00 | AA+ | Aaa | 8/13/2021 | 8/16/2021 | 2,333,309.18 | 0.41 | 16,440.96 | 2,262,334.76 | 2,202,204.69 |
| US TREASURY NOTES DTD 01/31/2021 0.375% 01/31/2026 | 91282CBH3 | 2,280,000.00 | AA+ | Aaa | 1/6/2023 | 1/9/2023 | 2,044,340.63 | 4.00 | 3,577.99 | 2,119,591.43 | 2,106,150.00 |
| US TREASURY NOTES DTD 07/31/2019 1.875% 07/31/2026 | 912828Y95 | 2,700,000.00 | AA+ | Aaa | 7/20/2023 | 7/21/2023 | 2,507,730.47 | 4.41 | 21,185.46 | 2,536,240.60 | 2,554,031.25 |
| Security Type Sub-Total | | 7,225,000.00 | | | | | 6,885,380.28 | 3.00 | 41,204.41 | 6,918,166.79 | 6,862,385.94 |
| Federal Agency | | | | | | | | | | | |
| FREDDIE MAC NOTES DTD 09/25/2020 0.375% 09/23/2025 | 3137EAEX3 | 285,000.00 | AA+ | Aaa | 9/23/2020 | 9/25/2020 | 284,142.15 | 0.44 | 290.94 | 284,703.23 | 266,232.18 |
| Security Type Sub-Total | | 285,000.00 | | | | | 284,142.15 | 0.44 | 290.94 | 284,703.23 | 266,232.18 |
| Managed Account Sub Total | | 7,510,000.00 | | | | | 7,169,522.43 | 2.91 | 41,495.35 | 7,202,870.02 | 7,128,618.12 |
| Securities Sub Total | | \$7,510,000.00 | | | | | \$7,169,522.43 | 2.91% | \$41,495.35 | \$7,202,870.02 | \$7,128,618.12 |
| Accrued Interest | | | | | | | | | | | \$41,495.35 |
| Total Investments | | | | | | | | | | | \$7,170,113.47 |

Quarterly Portfolio Transactions

| Trade Date | Settle Date | Par (\$) | CUSIP | Security Description | Coupon | Maturity Date | Transact Amount (\$) | Yield at Market | Realized G/L (BV) |
|-----------------------|-------------|-------------|-----------|----------------------|--------|---------------|----------------------|-----------------|-------------------|
| INTEREST | | | | | | | | | |
| 10/2/2023 | 10/2/2023 | | MONEY0002 | MONEY MARKET FUND | | | 4,358.18 | | |
| 11/1/2023 | 11/1/2023 | | MONEY0002 | MONEY MARKET FUND | | | 4,538.48 | | |
| 12/1/2023 | 12/1/2023 | | MONEY0002 | MONEY MARKET FUND | | | 4,427.21 | | |
| Total INTEREST | | 0.00 | | | | | 13,323.87 | | 0.00 |

Important Disclosures

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- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Refinitiv, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield-based matrix system to arrive at an estimated market value.
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- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.

Glossary

- **Accrued Interest:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **Agencies:** Federal agency securities and/or Government-sponsored enterprises.
- **Amortized Cost:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **Asset-Backed Security:** A financial instrument collateralized by an underlying pool of assets – usually ones that generate a cash flow from debt, such as loans, leases, credit card balances, and receivables.
- **Bankers' Acceptance:** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **Commercial Paper:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **Contribution to Total Return:** The weight of each individual security multiplied by its return, then summed for each sector to determine how much each sector added or subtracted from the overall portfolio performance.
- **Effective Duration:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **Effective Yield:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **Interest Rate:** Interest per year divided by principal amount and expressed as a percentage.
- **Market Value:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.
- **Negotiable Certificates of Deposit:** A CD with a very large denomination, usually \$1 million or more, that can be traded in secondary markets.
- **Par Value:** The nominal dollar face amount of a security.
- **Pass-through Security:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.

Glossary

- Repurchase Agreements: A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- Settle Date: The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- Supranational: A multinational union or association in which member countries cede authority and sovereignty on at least some internal matters to the group, whose decisions are binding on its members.
- Trade Date: The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- Unsettled Trade: A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- U.S. Treasury: The department of the U.S. government that issues Treasury securities.
- Yield: The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- YTM at Cost: The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- YTM at Market: The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.