

**City of Dexter
Washtenaw County, Michigan
Investment Policy**

1) Overview

The City of Dexter (“the City”) is a home rule municipality operating under its City Charter and City Code of Ordinances, functioning under the direction of the City Manager and seven-member City Council. City investments are subject to the requirement of Section 9.11 of the City Charter, which requires the adoption of an Investment Policy. The purpose of the Investment Policy is to establish the investment scope, objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the investment of funds by the City.

This Investment Policy has been adopted by resolution of the City Council and replaces all previous investment policies or resolutions concerning the cash management or investment of City funds.

The City manages a flexible investment portfolio, which includes general operating funds, bond reserve funds, proceeds from bond sales that will be expended on capital projects, and various other funds. Because these funds may be required at any time, it is essential that the City maintain strict maturity horizons for the purpose of liquidity control.

2) Policy

It is the policy of the City to invest public funds in a manner which will provide the maximum security with best investment return, while meeting the daily cash flow demands of the City and conforming to Michigan Public Act 20 of 1943 MCL 120.91.

3) Scope

This investment policy applies to all financial assets of the City, including those of discreet component units such as the Downtown Development Authority ("DDA"). Except for certain restricted and special funds, the City shall consolidate cash balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

a) Funds Included in this Policy

This Investment Policy applies to the financial assets of the general, enterprise, debt, capital, and special revenue funds included in the City’s annual financial statements, unless specifically excluded by City Council.

b) Funds Excluded from this Policy

Assets contained in the trust and agency, retiree health care and pension funds.

The City's pension funds are invested with the Michigan Municipal Employees Retirement System. Their Pension Investment Policy may be reviewed on their website at www.mersofmich.com. The City's retiree health care funds are invested with the Michigan Municipal Employees Retirement System's Health Care Funding Vehicle, and investments may be made in conformance with the Uniform Resolution establishing the retiree health care fund, which was approved by City Council on January 26, 2009.

4) Standards of Care

a) Prudence and Indemnification

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. This standard requires that 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.

Personnel acting in accordance with written procedures and this investment policy, and 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 in a timely fashion and appropriate action is taken to control adverse developments.

b) Ethics and Conflicts of Interest

All City employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair, or create the appearance of an impairment of, their ability to make impartial investment decisions. Employees shall disclose to the City Manager any material equity interests in financial institutions that conduct business with the City and they shall subordinate their personal investment transactions to those of the City. Employees shall also refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

c) Delegation of Authority

In accordance with the City Charter, Section 7.06, ultimate responsibility and authority for the investment of all City funds resides with the City Treasurer, who

shall be known as the “Investment Officer”. The Investment Officer may delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized persons. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. In the event that investment activities are delegated by the Investment Officer to other employees, ultimate responsibility for the transactions shall remain with the Investment Officer.

The City may engage the support services of outside professionals in regard to its financial program, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the City’s resources. Such services may include engagement of investment advisors in conjunction with debt issuance, portfolio management, special legal representation, third party custodial services, and appraisals by independent rating services. Investment advisors must be registered with the SEC.

d) Investment Procedures

The Investment Officer shall establish written administrative procedures for the operation of the City’s investment program as well as internal controls, which shall include explicit delegation of authority to personnel responsible for investment transactions. The procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the City.

e) Internal Controls

The Investment Officer is responsible for establishing and maintaining an internal control procedure designed to ensure that the City is reasonably assured of being protected from loss, theft or misuse. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

An external auditor shall independently review the City’s investment activities on an annual basis. This procedure will assure compliance with policies and procedures.

f) Finance Committee

A Finance Committee shall be established to provide internal control as well as a broad oversight of investment activities and procedures. This committee shall consist of three members appointed by the City Council, including the Investment Officer.

5) Investment Objectives

The primary objectives, in priority order, of the City's investment activities are safety, liquidity, and return on investment.

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. To attain this objective, the City will diversify by investing funds among a variety of investment types and financial institutions.

i) Credit Risk

The City will minimize credit risk, the risk of loss due to the failure of the financial institution, security issuer or backer, by:

- Limiting investments to those allowable under Public Act 20;
- Researching the stability and ratings of the financial institutions with which the City will do business;
- Diversifying the investment portfolio so that potential losses will be minimized.

ii) Interest Rate Risk

The City will minimize the risk that the market value of the portfolio will fall due to changes in general interest rates, by:

- Structuring the portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to terminate them prior to maturity;
- Investing operating funds primarily in vehicles with varying maturities.

b) Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that maturities are concurrent with anticipated cash flow demands. A portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

c) Return on Investment

The City's investment policy shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, while complying with this policy's safety and liquidity requirements. Investments shall not be redeemed or sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- Unforeseen circumstances require that non-liquid investments be terminated in order to provide emergency cash flow.

6) Safekeeping and Custody

a) Selection of Banks

The Investment Officer shall maintain a list of banks and savings institutions authorized to provide depository and other banking services, and from which the City may purchase Time Certificates of Deposit. To be authorized, a bank must be eligible to be a depository of funds belonging to the State of Michigan and maintain a principal office or branch office in Michigan. Banks that fail to meet this criterion, or in the judgment of the Investment Officer no longer offer adequate safety to the City, will be removed from the list.

b) Selection of Broker/Dealers

The Investment Officer shall maintain a list of broker/dealers authorized to conduct security transactions with the City. To be eligible, a firm must supply the following information (as appropriate):

- Audited financial statements;
- Registration with the Financial Industry Regulation Authority (FINRA);
- Proof of state registration;
- Certification of having read, understood, and agreed to compliance with the City's investment policy

Broker/dealers will be selected on the basis of their expertise in public cash management and their ability to provide services for the City's account. Approved broker/dealers and firms they represent must be licensed to do business in the State of Michigan and as such are subject to the provisions of Michigan Statutes relating to the investment of public funds.

Alternatively, if the City has engaged the services of an investment advisory firm, the authorized Investment Advisor may utilize the Investment Advisor's list of broker/dealers when executing transactions on behalf of the City. The Investment Advisor's approved list of broker/dealers shall be provided to the City on an annual

basis or upon request. In addition, the authorized Investment Advisor shall provide a written receipt of this policy and agreement to conduct transactions on behalf of the City in accordance with this Investment Policy. The authorized Investment Advisor shall provide such certification on an annual basis or upon any revision to this Investment Policy.

7) Authorized Investments and Transactions

All investments for the City shall be made in accordance with Michigan State statutes: Act 20 of 1943 as amended, M.C.L. 129.91-129.96, Investment of Surplus Funds of Political Subdivisions, and Act 40 of 1932 as amended, M.C.L. 129.12, Depositories for Public Moneys.

It is the intent of the City that this list of authorized securities be strictly interpreted. Securities that have been downgraded to a level that is below the minimum ratings described herein may be sold or held at the City's discretion. The portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

a) Types of Securities

The City following types of securities and transactions are eligible for use by the City pursuant to Public Act 20 MCL 129.91:

- Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with MCL 129.91 subsection (2); certificates of deposit obtained through a financial institution as provided in MCL 129.91 subsection (5); or deposit accounts of a financial institution as provided in MCL 129.91 subsection (6).
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- Repurchase agreements consisting of instruments listed in MCL 129.91 subdivision (a). Repurchase Agreements are subject to collateralization.
 - *Collateralization:* For the purpose of this section, the term "collateral" shall mean "purchased securities" under the terms of a City approved Master Repurchase Agreement. The collateral shall have an original minimum market value (including accrued interest) of 102% of the dollar value of the transaction and the collateral maintenance level shall be 101%. If collateralized value drops below 101 percent, it will immediately be restored to 102%. Collateral shall be held by the City's custodial bank, and the market value of the collateral securities shall be marked to the

market daily based on that day's bid price. The right of collateral substitution is granted.

- *Master Repurchase Agreement:* Repurchase Agreements shall be entered into only with primary dealers reporting to the Federal Reserve Bank of New York, or with firms that have a primary dealer within their holding company structure or with approved depository banks that have executed an approved Master Repurchase Agreement with the City. The Investment Officer shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of the counterparties who have executed a Master Repurchase Agreement with the City.
- Bankers' acceptances of United States banks.
- Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - The purchase of securities on a when-issued or delayed delivery basis.
 - The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- Obligations described in MCL 129.91 subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.
- In addition to the investments authorized under MCL 129.91 subsection (1), the governing body by resolution may authorize its investment officer to invest the funds of the public corporation in deposit accounts that meet all of the following conditions:

- The funds are initially deposited in a financial institution that is not ineligible to be a depository of surplus funds belonging to this state under section 6 of 1855 PA 105, MCL 21.146.
- The financial institution arranges for the deposit of the funds in deposit accounts in 1 or more insured depository institutions, as defined in 12 USC 1813, or 1 or more insured credit unions, as defined in 12 USC 1752, for the account of the public corporation.
- The full amount of the principal and any accrued interest of each deposit account is insured by an agency of the United States.
- The financial institution acts as custodian for the public corporation with respect to each deposit account.
- On the same date that the funds of the public corporation are deposited, the financial institution receives an amount of deposits from customers of other insured depository institutions or insured credit unions equal to or greater than the amount of the funds initially deposited by the public corporation in the financial institution.

b) Collateralization of Deposits

The State of Michigan does not require collateralization of public funds. See the section on repurchase agreements for additional collateralization requirements

c) Safekeeping and Custody

The Investment Officer shall designate one or more financial institutions to provide custodial services for the City. A Custodial Agreement shall be executed with each custodian bank prior to utilizing that bank's custodial services. To be eligible for designation as the City's custodian bank, a financial institution shall meet the criteria described in the Selection of Banks section of this Investment Policy.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. Ownership of all securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All City owned securities, except Certificates of Deposit, Investment Pools, and Money Market Mutual Funds, will be delivered by book entry and will be held in City-approved custodial bank, its correspondent bank or the Depository Trust Company (DTC).

d) Investment Diversification

It is the intent of the City to diversify the investments within its portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

Investments shall be diversified by:

- Avoiding over concentration in any one financial institution, broker/dealer, or specific security issuer (excluding U.S. Treasury securities);
- Limiting investments that have higher credit risks;
- Varying investment maturities; and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools, money market funds or other approved short-term funding vehicles to ensure that appropriate liquidity is maintained.

e) Portfolio Maturities and Liquidity

To the extent possible, the City's investments shall be matched with anticipated cash flow requirements. Unless matched to a specific cash flow liability and approved by the Investment Officer in writing the City will not invest in securities maturing more than five years from the date of trade settlement, and the weighted average final maturity of the portfolio should average three years.

The City recognizes that bond proceeds may, from time to time, be subject to provisions of Federal Arbitrage Regulations. Due to the legal complexities of arbitrage law and the necessary immunization of yield levels to correspond to anticipated cash flow schedules, the reinvestment of such debt issuance may, upon the advice of Bond Counsel or financial advisors, deviate from the maturity limitation provisions of this Investment Policy with prior written approval of the Investment Officer. In all cases, however, types of eligible investments will be compliant with this Investment Policy. This paragraph is only applicable to City funds subject to arbitrage calculations.

f) Competitive Transactions

Each investment shall be competitively transacted with authorized broker/dealers. Whenever possible, at least three broker/dealers shall be contacted and their bid and offering prices shall be recorded. If the City is offered a security for which there is no other readily available competitive offering, then quotations for comparable or alternative securities shall be documented.

Transactions executed by the City's investment advisor shall be conducted on a competitive basis as described in this section.

8) Reporting

a) Methods

The Investment Officer shall prepare a quarterly investment report that provides the status of the current investment portfolio. This report will be prepared in a manner which will allow the City Council to ascertain whether investment activities during the reported period have conformed to the investment policy. The report will include a listing of individual investments held at the end of the reported period; the distribution of investments across funds, in the case of pooled and other shared accounts; a listing of investment by Maturity Date; and the percentage of the total portfolio which each type of investment represents.

b) Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates.

9) Policy Considerations

a) Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

b) Amendments

The Investment Policy shall be adopted by resolution of the City Council. The Investment Officer shall review this Investment Policy annually and recommend necessary amendments to City Council.

Glossary

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

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 issuer.

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

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CDs are typically negotiable.

COLLATERAL: Securities, evidence 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.

COMPREHENSIVE ANNUAL FINANCIAL REPORT: The official annual report for the City of Dexter.

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.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its 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 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 returns.

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 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): Government sponsored wholesale banks which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set

Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: 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 influencing the volume of bank credit 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 the FHA, VA or FmHA 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 GOVERNMENT INVESTMENT POOL (LGIP): 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.

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

MATURITY: The date 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.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases

inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

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

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 custody 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.

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.

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 the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is increasing bank reserves.

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.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

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 BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

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

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.