



CONVENTION AND VISITORS AUTHORITY

POLICY NO. FIN-23	DATE 11/09	OFFICE OF PRIMARY RESPONSIBILITY (OPR) Finance
Title: INVESTMENT POLICY		

1) POLICY INTRODUCTION AND SCOPE

It is the policy of the Las Vegas Convention and Visitors Authority (LVCVA) to invest funds in a manner that will provide the highest investment return with the maximum security while meeting daily cash flow demands of the LVCVA and conforming to all Nevada Revised Statutes (NRS) governing the investment of public funds.

2) RESPONSIBILITIES

This investment policy applies to all financial assets of the LVCVA. These funds are accounted for in the LVCVA’s Comprehensive Annual Financial Report and include the General Fund, Capital Projects Funds and Debt Service Funds. Should bond covenants be more restrictive than this policy, bond proceeds will be invested in full compliance with those restrictions.

3) GUIDELINES

A) Standard of Prudence

- i. The standard of prudence to be applied to all investment activities by the Vice President of Finance, and his/her designee(s) shall follow the “prudent person” standard which states: *“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.”*
- ii. The Vice President of Finance, and his/her designee(s), 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 the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

B) Investment Objectives

The primary objectives of this investment policy are to minimize risk, ensure that cash is available when it is needed, and ensure a competitive rate of return while complying with the laws of the State of Nevada – in that order.

POLICY NO.	DATE	OFFICE OF PRIMARY RESPONSIBILITY (OPR)	PAGE
FIN-23	11/09	Finance	2
Title: INVESTMENT POLICY			

i. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective is to mitigate credit risk and interest rate risk. Policies designed to minimize these risks are:

- ✓ Limiting investments to the safest types of securities
- ✓ Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the LVCVA will do business.
- ✓ Diversifying the investment portfolio so that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- ✓ Structuring the investment portfolio so that securities mature to meet the cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- ✓ Limiting the term of investments to five years.
- ✓ Limiting the amount of investments exceeding 2 year maturities to 10% of total portfolio.

ii. Liquidity

Investments should match the time horizon in which the funds will be needed. Cash flow analyses will be utilized to identify assets not needed to fund currently anticipated cash outflows. Those funds needed for current cash outflows will be invested in liquid investments such as repurchase agreements (Repos), money market mutual funds, or the State of Nevada Local Government Investment Pool (LGIP). Any additional operating capital, bond proceeds, or debt service assets will be invested according to the anticipated payment dates and the guidelines provided herein.

iii. Return on Investments

The LVCVA's investment portfolio shall be designed with the objective of attaining a rate of return in relation to the prevailing budgetary and economic environments, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

C) Delegation of Authority

Authority to manage the LVCVA's investment program is granted to the Vice President of Finance by the Board of Directors in accordance with the NRS 355.175. As such, all cash, including bond proceeds, received by the LVCVA will be invested by the Vice President of Finance, delegated staff and authorized investment managers, who shall act in accordance with established written policy and procedures.

D) Investment Procedures and Responsibilities

The Vice President of Finance shall establish a system of controls and procedures to regulate the activities of designees or authorized investment managers involved in the investment program to ensure consistency with this investment policy. The procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, banking service contracts, and collateral/depository agreements.

POLICY NO.	DATE	OFFICE OF PRIMARY RESPONSIBILITY (OPR)	PAGE
FIN-23	11/09	Finance	3
Title: INVESTMENT POLICY			

The Vice President of Finance's responsibilities include the authority to open accounts with financial institutions and broker/dealers, to select investment managers, to arrange for the custody of securities and to execute such documents as are required to carry out this responsibility. The Vice President of Finance, designee, or authorized investment manager is responsible for furnishing authentic, timely instructions to the safekeeping bank(s) concerning settlement of the investment transactions, and verifying accuracy of completed transactions.

E) Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business to the Senior Vice President of Operations. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the LVCVA.

F) Authorized Financial Dealers and Institutions

i. Oversight

An investment committee shall be established consisting of a member of the executive committee independent of Finance (excluding the President/CEO), the Vice President of Finance, the Director of Finance, the Senior Manager of Financial Resources and a Financial Analyst. Annually, the investment committee shall accomplish the following objectives:

- a) Establish a list of approved financial institutions and broker/dealers authorized to provide investment services.
- b) Perform an annual review of the financial condition and registration of qualified financial institutions and broker/dealers.
- c) Review credit rating, ranking, or standing as published by a nationally recognized authority.
- d) Review the responsiveness of each financial institution or broker/dealer bidding and/or offering investment services.
- e) Review applicable state, federal, and national registration of each financial institution or broker/dealer if the registration has changed from the previous year.
- f) Review the LGIP portfolio as well as holdings of other participating entities.
- g) Review a quarterly investment report (described later).
- h) Recommend changes to the investment policy.

ii. Broker/Dealer Application

Any financial institution or broker/dealer is eligible to make an application to the investment committee to transact investments with the LVCVA. To be eligible, broker/dealers must be either "primary" dealers or regional dealers that qualify under Securities Exchange Commission Rule 15C3-1 (uniform net capital rule) and must have been in operation at least three years. All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- ✓ Two years of audited financial statements
- ✓ Proof of Financial Industry Regulatory Authority (FINRA) certification
- ✓ Completed LVCVA broker/dealer questionnaire
- ✓ Certification of having read, understood and agreeing to comply with the LVCVA's investment policy.

POLICY NO.	DATE	OFFICE OF PRIMARY RESPONSIBILITY (OPR)	PAGE
FIN-23	11/09	Finance	4
Title: INVESTMENT POLICY			

iii. Annual Review

The investment committee shall, at least annually, analyze and evaluate the credit worthiness, capability, and reputation of all financial institutions and broker/dealers with which the LVCVA actively conducts investment transactions. The annual analysis and evaluation of authorized institutions and broker/dealers shall include the following:

- a) A review of the annual financial statements of each broker/dealer or financial institution.
- b) A review of credit rating, ranking, or standing of each financial institution or broker/dealer as published by a nationally recognized authority.
- c) A review of the responsiveness of each financial institution or broker/dealer bidding and offering investments.
- d) A review of the applicable state, federal and national registration of each financial institution or broker/dealer if the registration has changed from the previous year.

iv. Annual Broker/Dealer Confirmation

The Vice President of Finance or designee shall send annually the current edition of the LVCVA Investment Policy to all financial institutions and broker/dealers, which are approved to conduct investment transactions with the LVCVA. The financial institution or broker/dealer shall confirm in writing that the policy has been received, reviewed, and accepted by the appropriate personnel. In the absence of such acceptance, investment transactions will not be considered with the financial institution or broker/dealer.

G) Authorized / Prohibited Investments

Authorized Investments:

The following investments will be permitted by this policy in accordance with NRS 355.170:

- **U.S. Treasuries:** Bills, notes, bonds and debentures of the United States Treasury, the maturity date which is not more than 5 years from the date of settlement.
- **U.S. Federal Agencies:** Securities issued by the following agencies:
 - ✓ Federal Farm Credit
 - ✓ Federal Home Loan Bank
 - ✓ Federal Home Loan Mortgage Corporation
 - ✓ Federal National Mortgage Association
 - ✓ Student Loan Marketing Association
 - ✓ Federal Agricultural Mortgage Corporation

Maturities on federal agency securities must not exceed 5 years from the date of settlement.

- **Bankers' Acceptances:** Bankers' acceptances issued by domestic banks with a short-term credit rating of A-1, P-1, or its equivalent or better. Maturities of bankers' acceptances must not exceed 180 days.
- **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 Market Mutual Funds:** Funds which are registered with the Securities and Exchange Commission are rated AAA by a nationally recognized rating service, and whose portfolios consist **only** of securities issued by the Federal Government or agencies of the federal government or in repurchase agreements fully collateralized by such securities.

POLICY NO.	DATE	OFFICE OF PRIMARY RESPONSIBILITY (OPR)	PAGE
FIN-23	11/09	Finance	5
Title: INVESTMENT POLICY			

- **Negotiable Certificates of Deposits:** 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 national recognized rating agency.
- **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 the United States government securities, and in full compliance with all applicable capital requirements. Repo transactions shall be limited to maturities of not more than 7 days per transaction.

The Vice President of Finance shall designate in advance, and shall maintain a list of, certain banks or brokers/dealers that are approved by the Vice President of Finance as counter parties for entering into Repos with the LVCVA. Such counter parties shall execute a Master Repurchase Agreement which has been approved by the Government Finance Officers Association of the United States and Canada prior to being included on the list of approved Repo counter parties.

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 safekeeping department of the LVCVA designated bank or another third party will hold the repo collateral. All repo transactions will be executed in accordance with NRS 355.170(2).

- **State of Nevada Local Government Investment Pool (LGIP):** The LGIP has been established by NRS as an alternative investment program to be utilized by local governments for their public funds. This program's operation is the responsibility of the State Treasurer who, by the provisions of the state statute, has adopted guidelines for the investment of these pooled funds.
- Any other investment which may be authorized by state law.

Prohibited Investments and Strategies:

The following list, though not necessarily all-inclusive, includes the types of investments and transactions (including collateral) that are prohibited:

- Common or preferred stock
- Inverse floaters
- Variable interest rates
- Derivatives
- Reverse repurchase agreements
- Securities lending
- Short sales
- Exchange traded futures contracts
- Currency and interest rate swaps
- Interest-only (ISOs) and principal-only (POs) as they relate to Collateralized Mortgage Obligations (CMOs)
- Any investment not authorized by NRS

POLICY NO.	DATE	OFFICE OF PRIMARY RESPONSIBILITY (OPR)	PAGE
FIN-23	11/09	Finance	6
Title: INVESTMENT POLICY			

H) Collateralized Investment Contracts (Contracts)

Full collateralization will be required on the following:

- Negotiable certificates of deposit
- Compensating balances required by the bank
- Money market bank savings accounts
- Repurchase agreements

The following specifications must comply on the above collateral investment contracts:

- The collateral has a market value of at least 102% of the amount invested and any accrued unpaid interest thereon;
- Collateral will be held by the safekeeping department of the LVCVA designated bank or another third party;
- Collateral statements must be received and reviewed quarterly.

I) Safekeeping and Custody

All securities purchased by the LVCVA shall be delivered against payment and held in a custodial safekeeping account with the LVCVA's agent. A custody agreement between the agent and the LVCVA is required before execution of any transactions. The custodial agent can not function as a counter party for the purchase of securities.

J) Maturity Limitations and Diversification

To the extent possible, the LVCVA will attempt to match its investments with anticipated cash flow requirements. The LVCVA will not directly invest in securities maturing more than 5 years from the date of settlement.

Diversification standards by investment type should fall within maximum allocations established by the Vice President of Finance and reviewed annually by the investment committee.

INVESTMENT CATEGORY	MAXIMUM MATURITY	AUTHORIZED LIMIT	QUALITY S&P/MOODY'S
U.S. Federal Agency	5 Years	80%	N/A
U.S. Treasury	5 Years	80%	N/A
Money Market Funds	N/A	30%	AAA
Commercial Paper	270 Days	20%	A1/P1
Certificate of Deposit	1 Year	5%	A1/P1
Bankers' Acceptance	180 Days	20%	A1/P1
Local Govt Investment Pool	N/A	40%	N/A
Repurchase Agreements	7 Days	20%	Executed with a Primary Dealer

Only 10% of the total portfolio shall be invested in maturities of 2 to 5 years. Additional diversification shall be maintained by varying the maturities of investments.

K) Internal Controls

The Vice President of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the LVCVA are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met.

The custodian/safekeeping account and all individual investment transactions shall be reviewed by the Financial Resources Manager along with another Financial Analyst

POLICY NO.	DATE	OFFICE OF PRIMARY RESPONSIBILITY (OPR)	PAGE
FIN-23	11/09	Finance	7
Title: INVESTMENT POLICY			

independent from the investment transaction completed to verify compliance with policies and procedures. In addition, external auditors and/or internal auditors shall audit investment records annually.

L) Performance Standards

The investment strategy employed by the LVCVA is passive (hold until maturity). Given this strategy and the liquidity objectives, the Vice President of Finance will benchmark the LVCVA investment portfolio on an average weighted yield to within 50 basis points of the six-month U.S. Treasury Bill to determine whether market yield is being achieved.

M) Reporting

i. Quarterly Investment Report

The Vice President of Finance or designee shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the LVCVA to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the investment committee, the President, and the Board of Directors. The report will include the following:

- a) Listing of individual securities held at the end of the reporting period
- b) Average weighted yield to maturity on investments as compared to applicable benchmarks
- c) Listing of investments by maturity date
- d) Percentage of the total portfolio which each type of investment represents
- e) Market value at quarter-end according to the U.S. Treasury
- f) Any investments sold below cost with explanation as to selling investment

ii. Arbitrage

The LVCVA will comply with any arbitrage reporting requirements and all Government Accounting Standards Board requirements.

iii. Marking to Market

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

N) Investment Policy Review and Adoption

The investment committee shall be responsible for reviewing and recommending minor modifications to this investment policy. Significant changes will be presented to the Board of Directors of the LVCVA.

POLICY NO.	DATE	OFFICE OF PRIMARY RESPONSIBILITY (OPR)	PAGE
FIN-23	11/09	Finance	8
Title: INVESTMENT POLICY			

GLOSSARY

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

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft, bill or exchange accepted by a bank or trust company. The accepting institution, as well as the issuer, guarantees payment of the bill.

BASIS POINT: 1/100 of one percent.

BID: The price offered by a buyer of securities.

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

CERTIFICATE OF DEPOSIT (CD): A time deposit with 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 funds.

COMMERCIAL PAPER (CP): An unsecured promissory note issued by a corporation. Maturities may not exceed 270 days. Usually sold in discount form.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report of the Las Vegas Convention & Visitors Authority. It includes combined statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP). It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material and a detailed statistical section.

COUPON: (a) The annual rate of return 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.

DELIVERY VERSUS PAYMENT (DVP): There are two methods of delivery of securities: (a) delivery versus payment and (b) 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).

DISCOUNTS: The difference between the cost price of a security and its maturity when quoted at lower than face value.

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

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

FEDERAL AGRICULTURAL MORTGAGE CORPORATION (FARMER MAC): The Farmer Mac was established to attract new capital for the financing of agricultural real estate and to provide liquidity to agricultural lender. The Board of Directors of Farmer Mac has 15 members, five of whom are elected from the System. Farmer Mac is regulated by the Farm Credit Administration and is designated by statute as a System entity.

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

POLICY NO.	DATE	OFFICE OF PRIMARY RESPONSIBILITY (OPR)	PAGE
FIN-23	11/09	Finance	9
Title: INVESTMENT POLICY			

FEDERAL FUNDS RATE: The rate of interest at which Federal 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 (currently 12 regional banks) which lend funds and provide correspondent banking services to 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 HOME LOAN MORTGAGE CORPORATION (FHLMC or Freddie Mac): Freddie Mac was chartered in 1970 pursuant to the Federal Home Loan Mortgage Corporation Act, Title III of the Emergency Home finance Act of 1970, as amended. Its mandate was to provide liquidity to the savings and loan industry for residential mortgage loans.

FEDERAL FARM CREDIT BANK (FFCB or Farm Credit): Farm Credit is a nationwide network of borrower-owned lending institutions and service organizations specializing in agricultural and rural lending. The Farm Credit System is the oldest of the government-sponsored enterprises, created in 1916 when Congress established the Federal Land Banks. After identifying additional needs for agricultural credit, Congress established the Federal Intermediate Credit Banks in 1923 and the Banks for Cooperatives in 1933. The banks and associations are regulated by the Farm Credit Administration.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA 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 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.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value

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.

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 the seller of securities.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the Federal Reserve System Bank as directed by the Federal Open Market Committee 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 an 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

POLICY NO.	DATE	OFFICE OF PRIMARY RESPONSIBILITY (OPR)	PAGE
FIN-23	11/09	Finance	10
Title: INVESTMENT POLICY			

are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities brokers/dealers, banks, and a few unregulated firms.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price.

REPURCHASE AGREEMENT: 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 time period of the agreement, and the terms of the agreement are structured to compensate him for this.

STUDENT LOAN MARKETING ASSOCIATION (SLMA or Sallie Mae): The SLMA, a secondary market for student loans, is a government-sponsored enterprise (GSE) created under a 1972 Congressional charter. After Sallie Mae's privatization in 1997, it became a principal operating subsidiary of SLM Holding Corporation, today known as USA Education, Inc. The GSE must be dissolved by 2008.

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 (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

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

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 of from two to ten 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 converted in 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 the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

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