



Southern Illinois University

Quarterly Investment Report
December 31, 2018

Market Update

SUMMARY

- The fourth quarter was not for the faint of heart as markets experienced surging volatility, a worldwide equity sell-off, yield curve inversion, ongoing trade tensions and a partial government shutdown. Just as the New Year turned, however, a modicum of calm returned as stocks regained their footing amid the backdrop of stable U.S. economic prospects.
- In response to the stock market sell-off and global turmoil, U.S. Treasury yields fell sharply and the yield curve partially inverted. While economists have so far shrugged off the yield curve flattening, and its typical interpretation as an early warning sign of an impending recession, weakening economic data emerging in both the U.S. and globally have added to the level of concern.
- The Federal Reserve (Fed) raised the federal funds target rate to a new range of 2.25% to 2.50% in December, the fourth rate increase in 2018. Unlike the well choreographed path of rate hikes in 2018, the future direction of rates has become far less clear as the Fed appears to be recalibrating monetary policy by signaling a shift to a more “wait and see” and data-dependent approach. The Fed’s December estimate was for two rate hikes in 2019, but the market expects none.
- The U.S. government ended the year embroiled in a partial shutdown that began on December 21. More than 800,000 federal employees and an estimated 4 million government contractors are affected. The White House Council of Economic Advisers estimated that gross domestic product (GDP) will be reduced by 0.13% for each week of the shutdown.

ECONOMIC SNAPSHOT

- U.S. real GDP grew at an annualized rate of 3.4% in the third quarter making the second and third quarters the best back-to-back quarters since 2014. The American consumer continued to drive strong third quarter growth that more than offset moderation in business investment and outright contraction in residential investment.
- U.S. labor market conditions remained healthy, providing the strongest evidence of continued growth of the U.S. economy. The economy added 762,000 new jobs in the fourth quarter, among the strongest quarters of the 9.5-year expansion. While the unemployment rate ticked higher to 3.9%, it was attributed to more workers entering
- Inflation in the U.S. remained well-contained, hovering around the Fed’s 2% target. Nevertheless inflation expectations weakened. While wage growth rose to match the expansion high, oil prices fell sharply, and home price growth slowed..

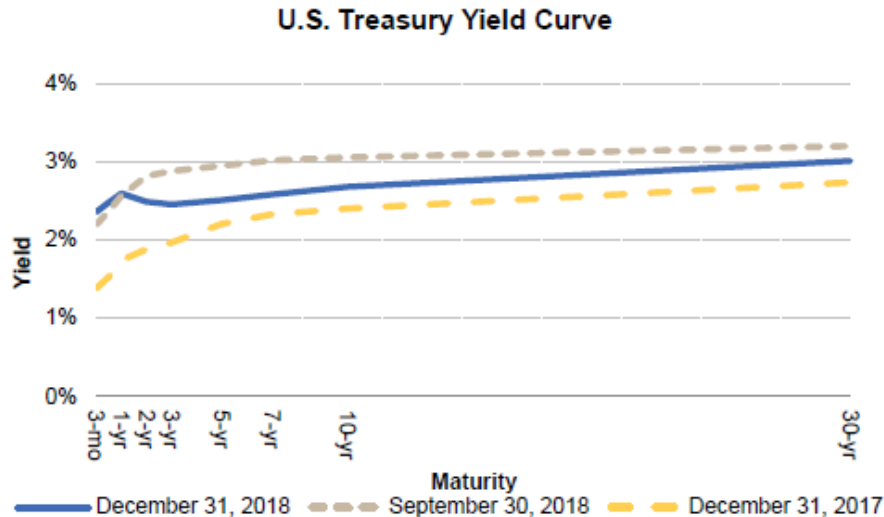
OUTLOOK

- While the path of future Fed rate hikes is less clear than in recent years, we expect future tightening (additional Fed rate hikes) to be modest. Further, political gridlock adds additional uncertainty. As a result, we will seek to increase portfolio duration to be more in line with (neutral to) the benchmark.
- Although it appears that volatility may not dissipate quickly, the significant sell-off in the corporate sector (resulting in wider spreads) presents an opportunity to selectively add to the sector. We prefer high-quality, defensive issuers with a focus on one to three-year maturities and continue to prefer financials (specifically domestic issuers) and to remain selective in industrial issuers.

Market Update

INTEREST RATES

- The U.S. Treasury yield curve inverted between 2- and 5-year maturities for the first time since March 2007. Short-term yields moved higher to parallel the December Fed rate hike, but yields on longer maturities plunged by up to 44 basis points (0.44%) as the market reassessed the trajectory for the U.S. economy and its implication for future Fed action.
- As stock markets fell and volatility rose, credit spreads widened sharply, reflecting heightened risk and uncertainty. Yield spreads on investment-grade corporates rose 44 basis points (63%) while spreads on high yield bonds (those rated below BBB) rose by 210 basis points (66%). Despite wider spreads, corporate profits and underlying fundamentals remained reasonably healthy.



Source: Bloomberg, as of 12/31/2018.

SECTOR PERFORMANCE

- Total returns in the bond market were strong across the board in the quarter as lower yields pushed prices higher, reversing what had been dismal bond market returns over the first three quarters of the year. While diversification typically boosts returns, fourth quarter performance was led by the U.S. Treasury sector, as the flight to quality amid widespread market de-risking led to outperformance relative to most other investment-grade fixed income alternatives.
- As the long-end of the yield curve declined, it led to outperformance of longer maturities relative to shorter maturities. For example, the 3-month Treasury Bill Index generated 0.57% of total return for the quarter, while the 5-year and the 10-Year Treasury indices returned 1.49% and 2.21%, respectively.
- The federal agency sector inside of five years performed well, due to a combination of limited issuance and relative immunity from the quarter's spread widening across the credit sectors. Relative performance deteriorated farther out the curve, as even modestly wider spreads negatively impacted longer maturities. Supranationals also posted positive excess returns for the quarter as spreads remained in narrow ranges.
- The investment-grade corporate sector suffered from the market environment in the fourth quarter. Corporates underperformed Treasuries as spreads widened sharply, with higher-quality issues generally outperforming lower-quality ones. Poor fourth quarter performance dragged down trailing 12-month figures as well, which resulted in corporates underperforming Treasuries for the year.
- Mortgage-backed securities (MBS) generated negative excess returns for the third consecutive quarter. Increased volatility and negative convexity continued to hurt the sector.

Summary of Operating Investments

Summary of Operating Investments

Market Value (\$ in millions)*

	12/31/2018
Illinois Funds	\$ 75.4
US Bank Commercial Paper Sweep	43.7
Subtotal Cash & Cash Equivalents	<u>\$ 119.1</u>
Short Term Portfolio	31.4
Intermediate Term Portfolio	156.8
Total Portfolio	<u><u>\$ 307.4</u></u>

Book Value (\$ in millions)

\$ 308.3

Current Yields (Annualized)

Illinois Funds	2.53%
US Bank Commercial Paper Sweep	1.85%
Benchmark: S&P Rated Government Investment Pool Index	2.21%

Asset Allocation (\$ in millions)*

Sector	12/31/2018	
Money Market Mutual Funds / LGIP	\$ 77.4	25.2%
U.S. Treasury Bonds/Notes	67.2	21.9%
Federal Agency Bonds/Notes	22.6	7.4%
Federal Agency MBS	20.6	6.7%
Federal Agency CMO	29.6	9.6%
Supra-National Agency Bonds/Notes	22.9	7.5%
Commercial Paper	22.7	7.4%
Commercial Paper Sweep (US Bank)	43.7	14.2%
Subtotal	306.7	99.8%
Accrued Interest	0.6	0.2%
Total	\$ 307.4	100.0%

Performance Summary (Total Return)**

	Current Quarter	1 Year	3 Year	5 Year	10 Year	Since Inception
Short Term Portfolio	0.61%	2.10%	-	-	-	1.52%
Benchmark: BofA Merrill Lynch 3-Month Treasury Bill Index	0.56%	1.87%	-	-	-	1.25%
Intermediate Term Portfolio	1.78%	1.31%	1.43%	-	-	1.49%
Benchmark: Barclays Intermediate U.S. Govt. Securities	2.22%	1.43%	1.21%	-	-	1.35%

*Detail may not add to total due to rounding

**Returns are gross of fees. Current Quarter total return is presented on a periodic basis. Trailing returns are presented, on an annualized basis.

SIU - Intermediate Term Portfolio

Investment Approach

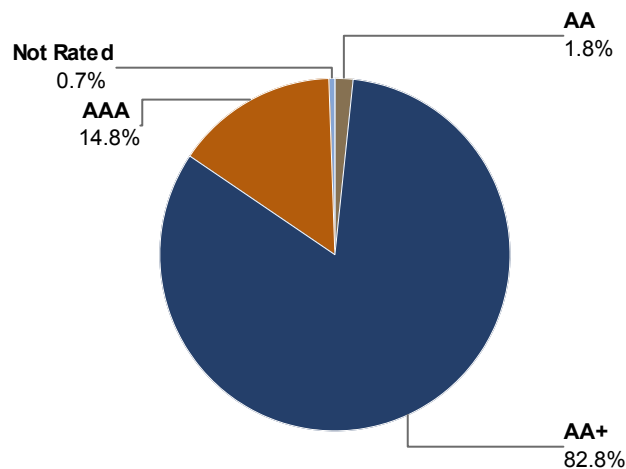
- The University's Intermediate Term portfolio is actively managed by PFM Asset Management, LLC. PFM seeks to add value by strategically buying or selling high-quality, fixed-income securities. Funds in the core portfolio are typically not needed over an intermediate- or long- term horizon and are therefore invested in fixed-income securities with maturity dates up to 10 years. This actively managed portfolio generally consists of all securities types available to the University in accordance with the permitted investments as described in the Illinois Public Funds Investment Act and the University's Investment Policy and Guidelines.

Portfolio Statistics

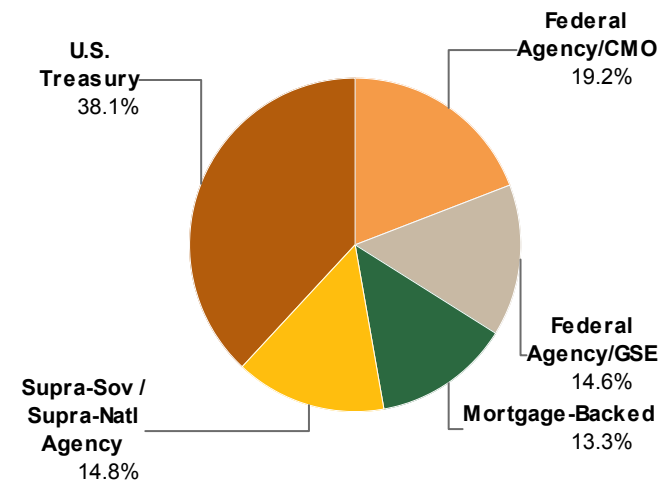
As of December 31, 2018

Par Value:	\$155,144,967
Total Market Value:	\$156,814,200
Security Market Value:	\$154,573,524
Accrued Interest:	\$576,848
Cash:	\$1,663,828
Amortized Cost:	\$155,484,657
Yield at Market:	2.72%
Yield at Cost:	2.53%
Effective Duration:	3.32 Years
Duration to Worst:	3.50 Years
Average Maturity:	6.25 Years
Average Credit: *	AA

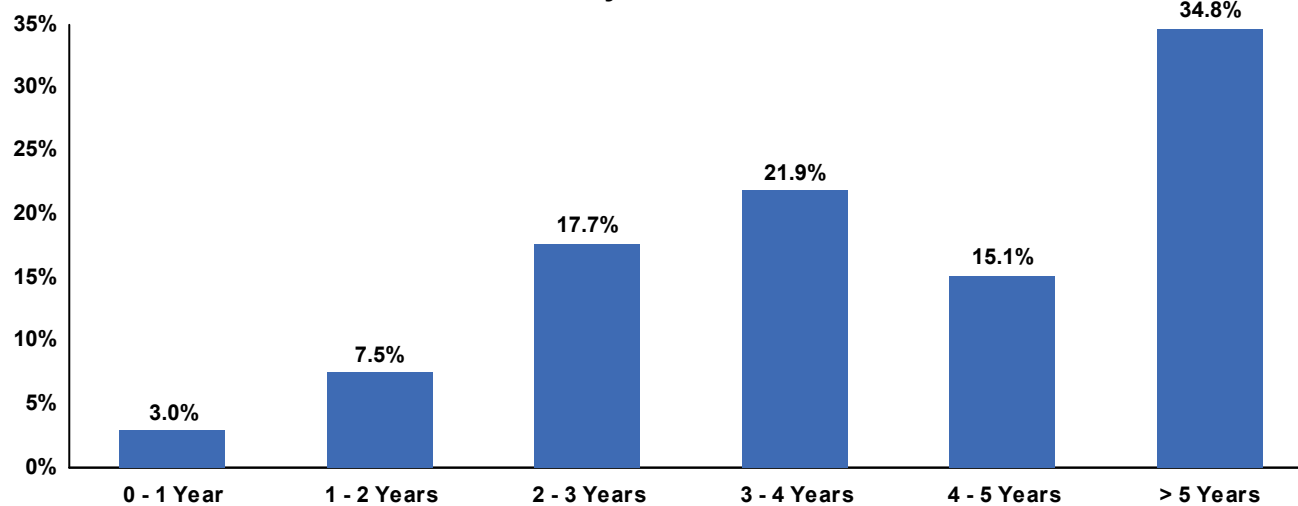
Credit Quality (S&P Ratings)



Sector Allocation



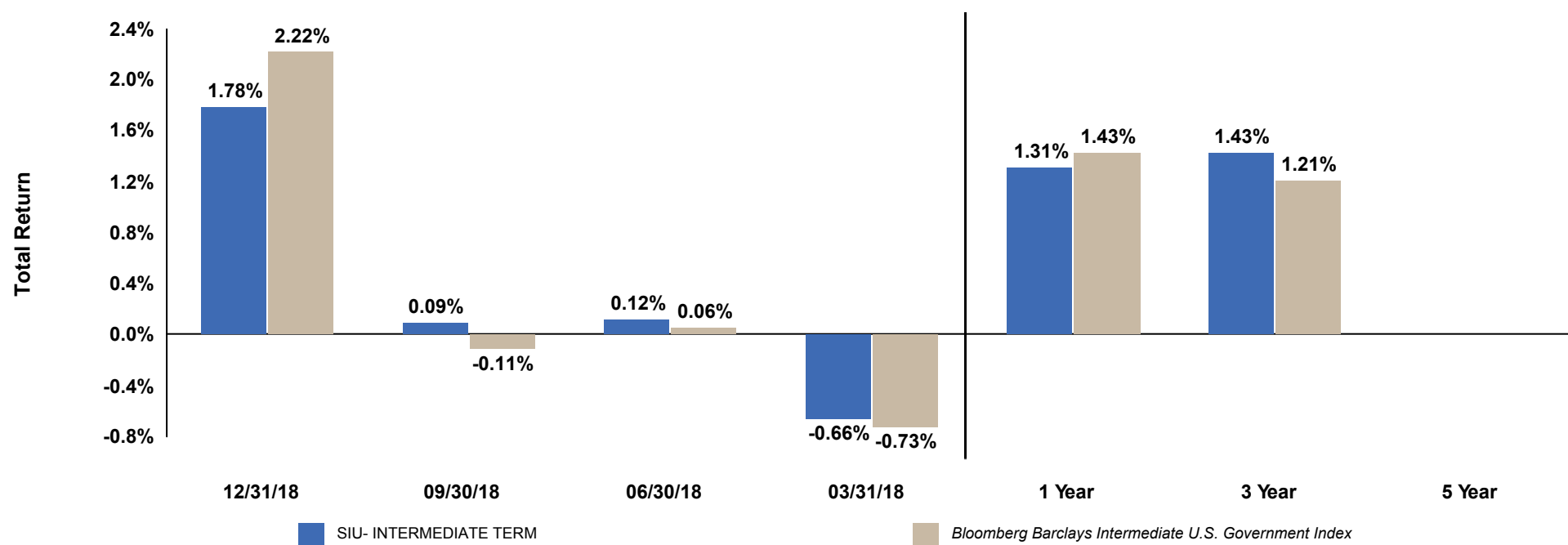
Maturity Distribution



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

Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Quarter Ended				Annualized Return		
		12/31/18	09/30/18	06/30/18	03/31/18	1 Year	3 Year	5 Year
SIU- INTERMEDIATE TERM	3.32	1.78%	0.09%	0.12%	-0.66%	1.31%	1.43%	-
<i>Net of Fees **</i>	-	1.76%	0.07%	0.10%	-0.68%	1.24%	1.36%	-
Bloomberg Barclays Intermediate U.S. Government Ii	3.68	2.22%	-0.11%	0.06%	-0.73%	1.43%	1.21%	-
Difference (Gross)		-0.44%	0.20%	0.06%	0.07%	-0.12%	0.22%	-
Difference (Net)		-0.46%	0.18%	0.04%	0.05%	-0.19%	0.15%	-



Portfolio performance is gross of fees unless otherwise indicated. ** Fees were calculated based on average assets during the period at the contractual rate.

Portfolio Earnings

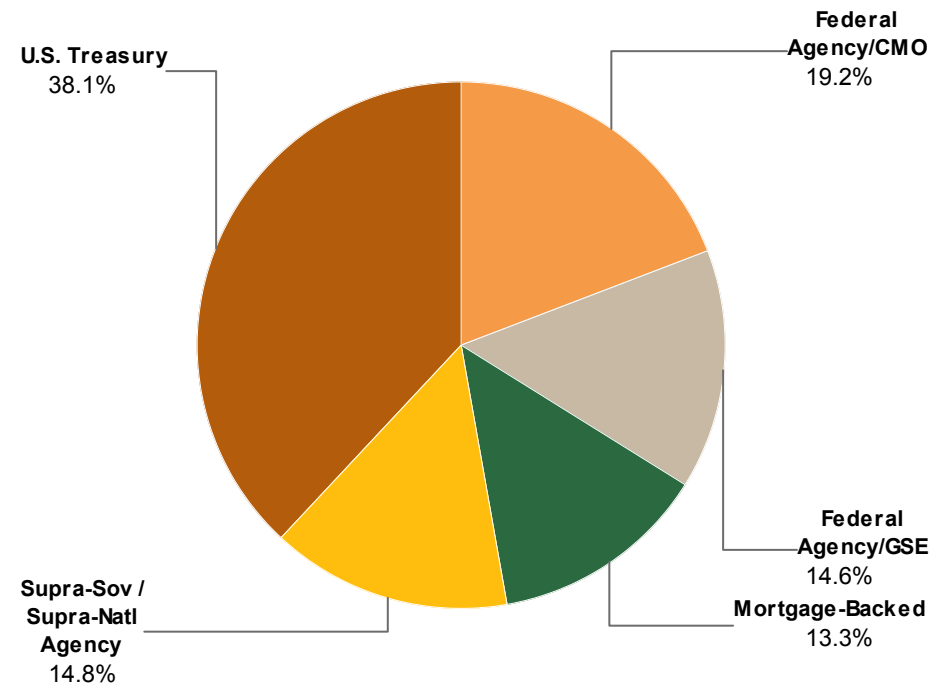
Quarter-Ended December 31, 2018

	Market Value Basis	Accrual (Amortized Cost) Basis
Beginning Value (09/30/2018)	\$123,797,117.81	\$126,515,578.40
Net Purchases/Sales	\$28,973,296.71	\$28,973,296.71
Change in Value	\$1,803,109.70	(\$4,218.29)
Ending Value (12/31/2018)*	\$154,573,524.22	\$155,484,656.82
Interest Earned	\$781,346.19	\$781,346.19
Portfolio Earnings	\$2,584,455.89	\$777,127.90

*Amount does not include cash/STIF balances and accrued interest.

Sector Allocation
As of December 31, 2018

Sector	Market Value (\$)	% of Portfolio
U.S. Treasury	58,838,638	38.1%
Federal Agency/CMO	29,617,482	19.2%
Supra-Sov / Supra-Natl Agency	22,922,995	14.8%
Federal Agency/GSE	22,621,611	14.6%
Mortgage-Backed	20,572,799	13.3%
Total	\$154,573,524*	100.0%

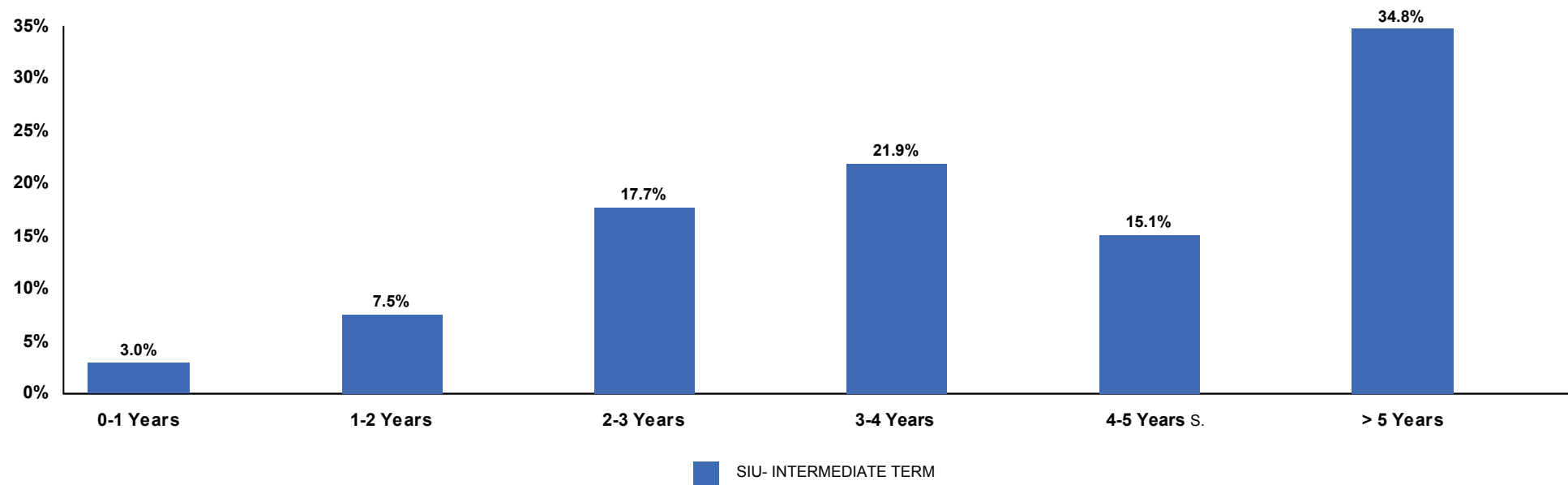


*Amount does not include cash/STIF balances and accrued interest. Detail may not add to total due to rounding.

Maturity Distribution

As of December 31, 2018

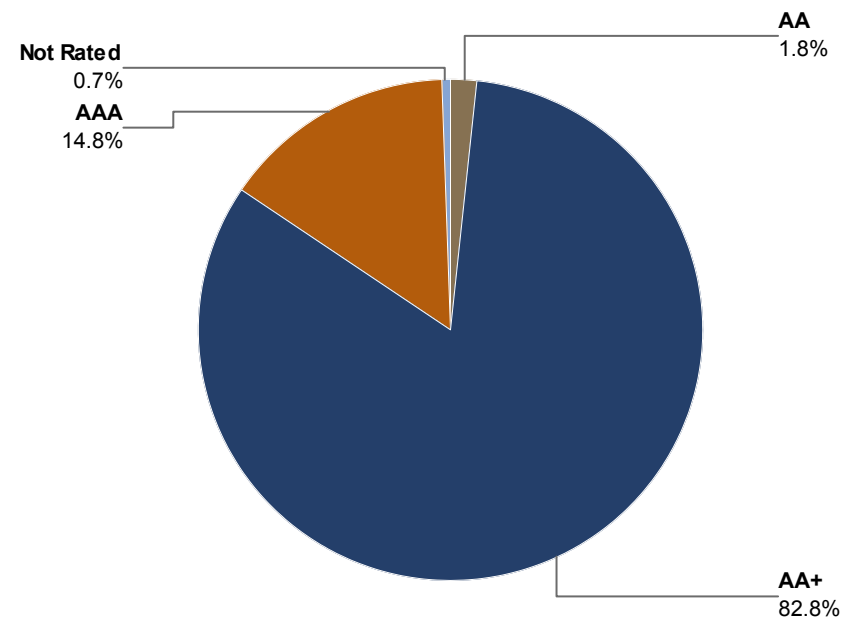
Portfolio	Yield at Market	Average Maturity	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	>5 Years
SIU- INTERMEDIATE TERM	2.72%	6.25 yrs	3.0%	7.5%	17.7%	21.9%	15.1%	34.8%



Credit Quality

As of December 31, 2018

S&P Rating	Market Value (\$)	% of Portfolio
AA+	\$127,918,061	82.8%
AAA	\$22,922,995	14.8%
AA	\$2,735,175	1.8%
Not Rated	\$997,294	0.7%
Totals	\$154,573,524*	100.0%



*Amount does not include cash/STIF balances and accrued interest. Detail may not add to total due to rounding.

Sector/Issuer Distribution

As of December 31, 2018

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Federal Agency/CMO			
FANNIE MAE	7,592,772	25.6%	4.9%
FREDDIE MAC	21,145,372	71.4%	13.7%
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION	879,338	3.0%	0.6%
Sector Total	29,617,482	100.0%	19.2%
Federal Agency/GSE			
AGENCY FOR INTERNATIONAL DEVELOPMENT	3,247,290	14.4%	2.1%
FANNIE MAE	5,631,936	24.9%	3.6%
FEDERAL HOME LOAN BANKS	817,315	3.6%	0.5%
FREDDIE MAC	7,416,038	32.8%	4.8%
TENNESSEE VALLEY AUTHORITY	5,509,032	24.4%	3.6%
Sector Total	22,621,611	100.0%	14.6%
Mortgage-Backed			
FANNIE MAE	10,549,148	51.3%	6.8%
FREDDIE MAC	8,942,967	43.5%	5.8%
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION	1,080,684	5.3%	0.7%
Sector Total	20,572,799	100.0%	13.3%
Supra-Sov / Supra-Natl Agency			

SIU- INTERMEDIATE TERM

Portfolio Composition

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
AFRICAN DEVELOPMENT BANK	6,452,004	28.1%	4.2%
ASIAN DEVELOPMENT BANK	10,075,230	44.0%	6.5%
INTER-AMERICAN DEVELOPMENT BANK	4,567,837	19.9%	3.0%
INTERNATIONAL FINANCE CORPORATION	1,827,924	8.0%	1.2%
Sector Total	22,922,995	100.0%	14.8%
U.S. Treasury			
UNITED STATES TREASURY	58,838,638	100.0%	38.1%
Sector Total	58,838,638	100.0%	38.1%
Portfolio Total	154,573,524*	100.0%	100.0%

*Amount does not include cash/STIF balances and accrued interest.

SIU - Short Term Portfolio

Investment Approach

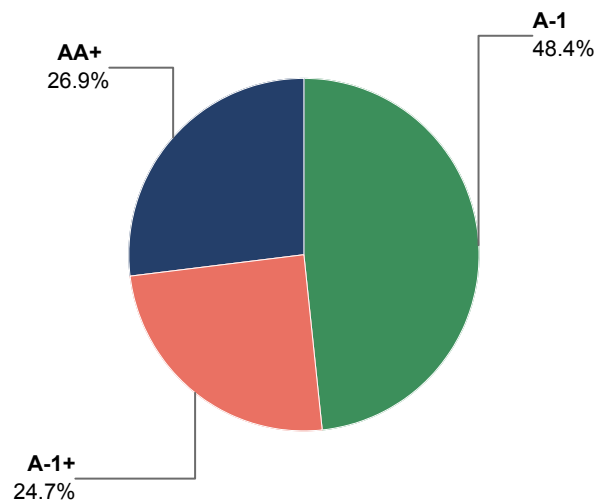
- The University's Short-Term portfolio is actively managed by PFM Asset Management, LLC. The short-term portfolio is structured to match the University's anticipated liquidity needs. The portfolio's duration typically ranges from 0 – 12 months, but is limited to a maximum maturity of 3 years. These funds are designed to be used for specific, predictable cash flows (i.e. payroll, debt service) as well as a liquidity cushion of cash available for any unforeseen expenses. Typical investments include, short-term U.S. Treasuries, short-term Federal Agencies, and commercial paper. Permitted investments are limited to those as described in the Illinois Public Funds Investment Act and the University's Investment Policy and Guidelines.

Portfolio Statistics

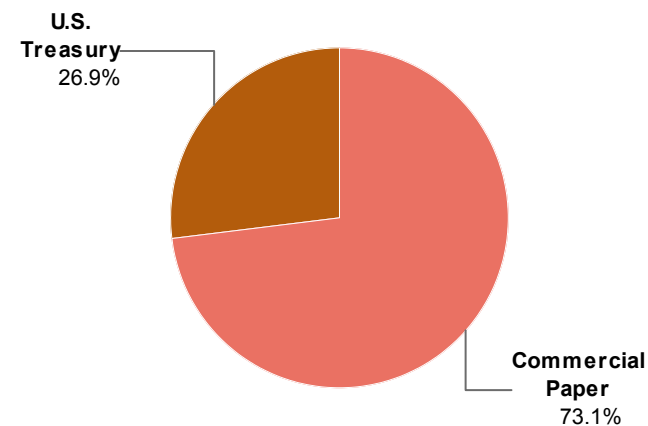
As of December 31, 2018

Par Value:	\$31,440,000
Total Market Value:	\$31,441,027
Security Market Value:	\$31,080,379
Accrued Interest:	\$33,385
Cash:	\$327,262
Amortized Cost:	\$31,083,140
Yield at Market:	2.78%
Yield at Cost:	2.79%
Effective Duration:	0.48 Years
Duration to Worst:	0.48 Years
Average Maturity:	0.49 Years
Average Credit: *	AA

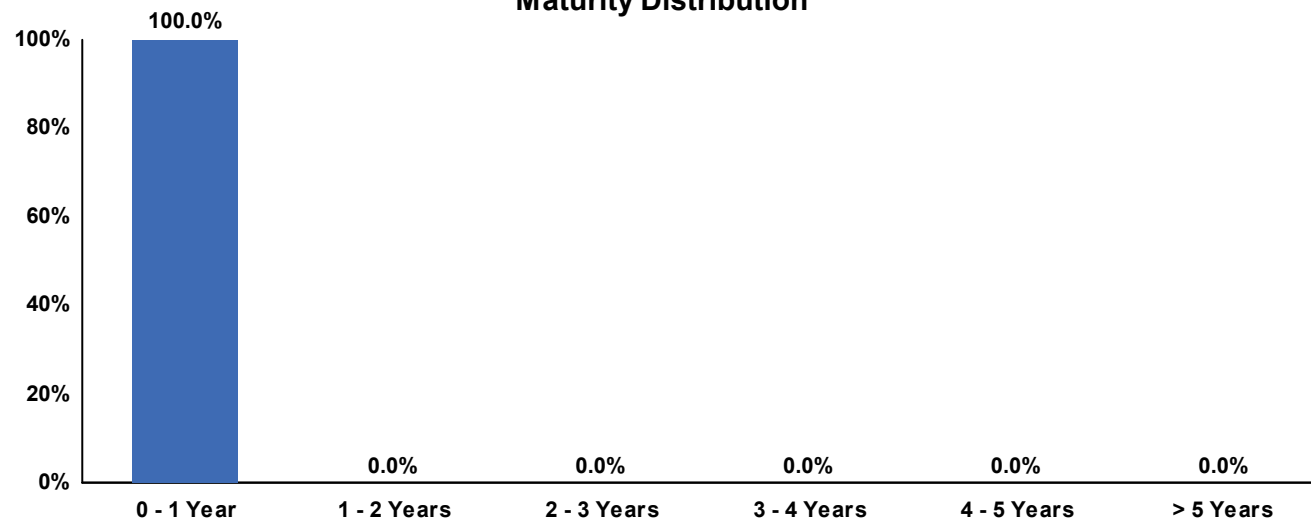
Credit Quality (S&P Ratings)



Sector Allocation



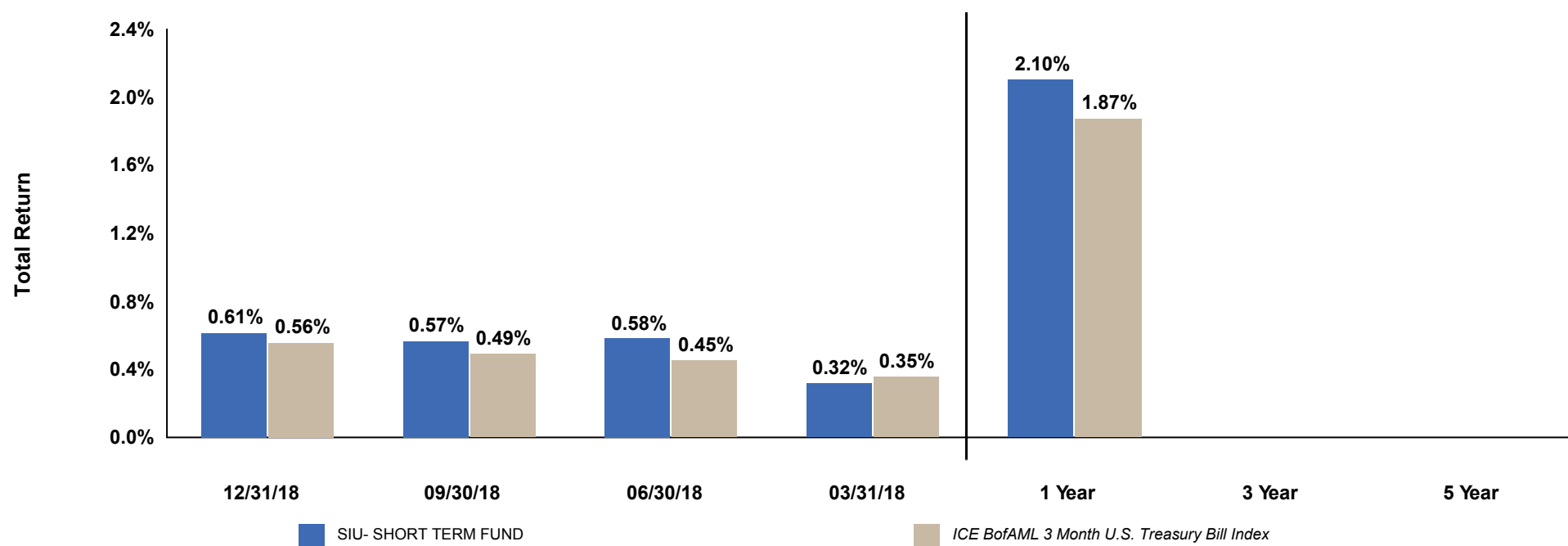
Maturity Distribution



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

Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Quarter Ended				Annualized Return		
		12/31/18	09/30/18	06/30/18	03/31/18	1 Year	3 Year	5 Year
SIU- SHORT TERM FUND	0.48	0.61%	0.57%	0.58%	0.32%	2.10%	-	-
Net of Fees **	-	0.59%	0.55%	0.56%	0.30%	2.03%	-	-
ICE BofAML 3 Month U.S. Treasury Bill Index	0.16	0.56%	0.49%	0.45%	0.35%	1.87%	-	-
Difference (Gross)		0.05%	0.08%	0.13%	-0.03%	0.23%	-	-
Difference (Net)		0.03%	0.06%	0.11%	-0.05%	0.16%	-	-



Portfolio performance is gross of fees unless otherwise indicated. ** Fees were calculated based on average assets during the period at the contractual rate.

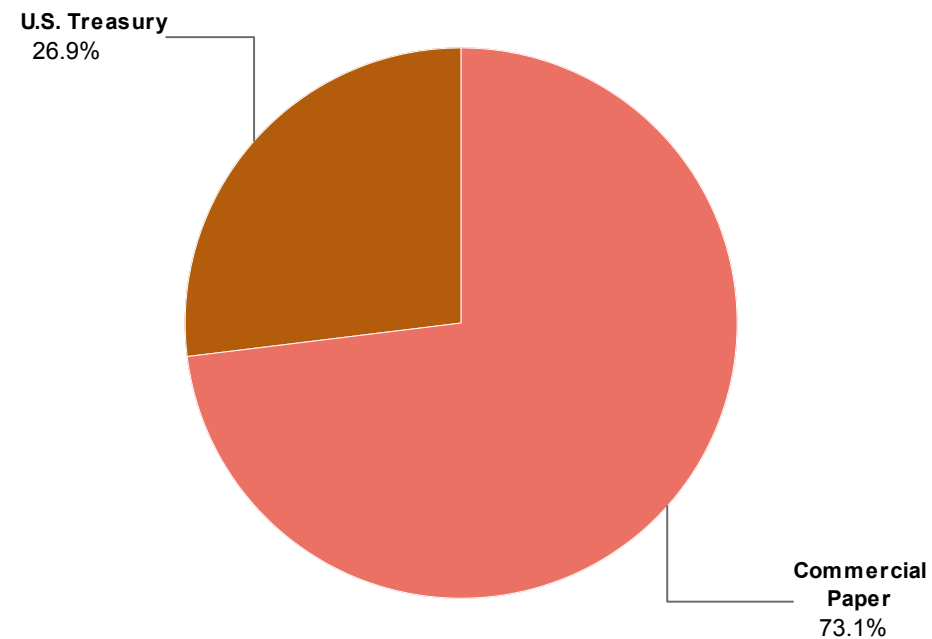
Portfolio Earnings*Quarter-Ended December 31, 2018*

	Market Value Basis	Accrual (Amortized Cost) Basis
Beginning Value (09/30/2018)	\$69,971,790.65	\$69,986,113.35
Net Purchases/Sales	(\$39,107,018.60)	(\$39,107,018.60)
Change in Value	\$215,607.39	\$204,045.11
Ending Value (12/31/2018)*	\$31,080,379.44	\$31,083,139.86
Interest Earned	\$64,567.18	\$64,567.18
Portfolio Earnings	\$280,174.57	\$268,612.29

*Amount does not include cash/STIF balances and accrued interest.

Sector Allocation
As of December 31, 2018

Sector	Market Value (\$)	% of Portfolio
Commercial Paper	22,722,169	73.1%
U.S. Treasury	8,358,210	26.9%
Total	\$31,080,379*	100.0%

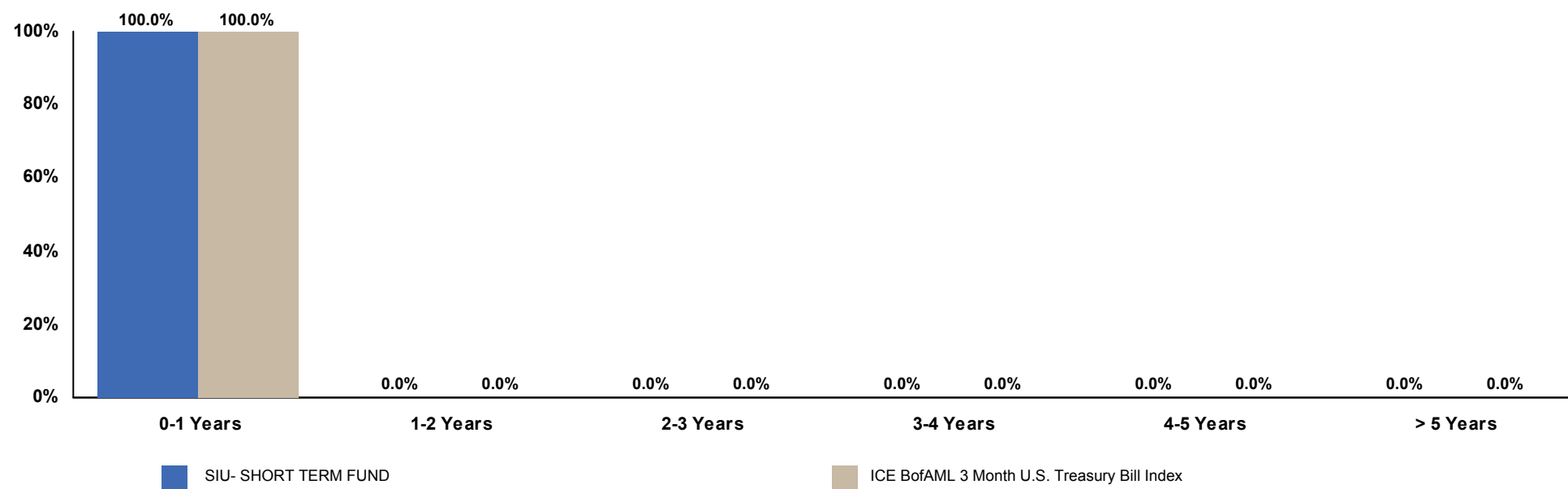


*Amount does not include cash/STIF balances and accrued interest. Detail may not add to total due to rounding.

Maturity Distribution

As of December 31, 2018

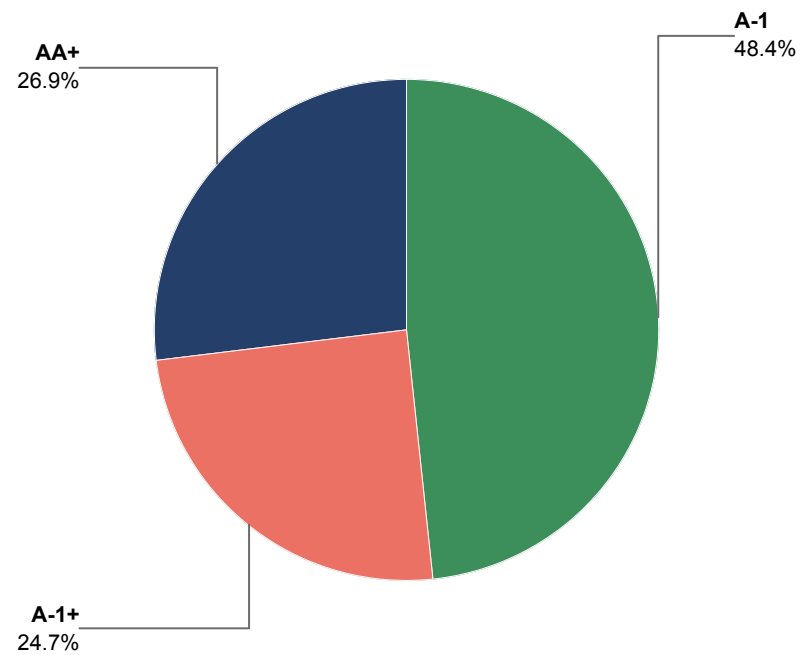
Portfolio/Benchmark	Yield at Market	Average Maturity	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	>5 Years
SIU- SHORT TERM FUND	2.78%	0.49 yrs	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ICE BofAML 3 Month U.S. Treasury Bill Index	2.39%	0.24 yrs	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%



Credit Quality

As of December 31, 2018

S&P Rating**	Market Value (\$)	% of Portfolio
A-1	\$15,056,031	48.4%
AA+	\$8,358,210	26.9%
A-1+	\$7,666,138	24.7%
Totals	\$31,080,379*	100.0%



*Amount does not include cash/STIF balances and accrued interest. Detail may not add to total due to rounding.

** Includes short-term and long-term ratings.

Sector/Issuer Distribution

As of December 31, 2018

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Commercial Paper			
ALPINE SECURITIZATION LLC	543,285	2.4%	1.7%
BEDFORD ROW FUNDING CORP	1,322,730	5.8%	4.3%
BNP PARIBAS	1,327,940	5.8%	4.3%
COCA-COLA COMPANY	1,328,106	5.8%	4.3%
CREDIT AGRICOLE SA	1,333,222	5.9%	4.3%
CREDIT SUISSE GROUP	786,746	3.5%	2.5%
FAIRWAY FINANCE COMPANY LLC	1,343,389	5.9%	4.3%
HSBC HOLDINGS PLC	1,322,521	5.8%	4.3%
JP MORGAN CHASE & CO	1,320,893	5.8%	4.2%
METLIFE INC	1,341,186	5.9%	4.3%
mitsubishi UFJ FINANCIAL GROUP INC	1,330,953	5.9%	4.3%
NATIXIS NY BRANCH	1,749,197	7.7%	5.6%
PRUDENTIAL FINANCIAL INC	1,086,661	4.8%	3.5%
RABOBANK NEDERLAND	1,328,206	5.8%	4.3%
SIEMENS AG	1,293,087	5.7%	4.2%
SUMITOMO MITSUI FINANCIAL GROUP INC	1,341,575	5.9%	4.3%
TORONTO-DOMINION BANK	1,327,658	5.8%	4.3%
TOYOTA MOTOR CORP	1,294,817	5.7%	4.2%
Sector Total	22,722,169	100.0%	73.1%

SIU- SHORT TERM FUND

Portfolio Composition

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
U.S. Treasury			
UNITED STATES TREASURY	8,358,210	100.0%	26.9%
Sector Total	8,358,210	100.0%	26.9%
Portfolio Total	31,080,379*	100.0%	100.0%

*Amount does not include cash/STIF balances and accrued interest.

Illinois Funds

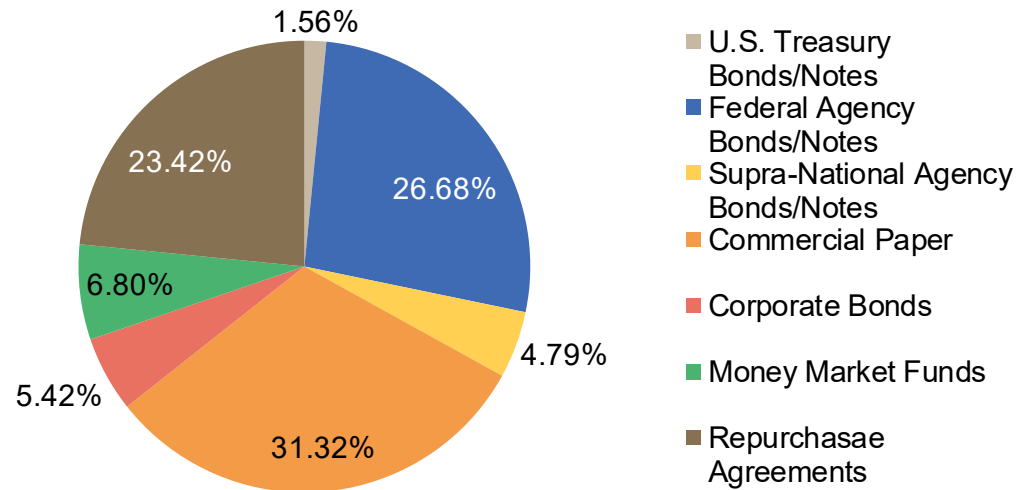
Investment Approach

- The Illinois Funds is a Local Government Investment Pool (LGIP) operated by the Illinois State Treasurer's Office. The Illinois Funds strives to provide an inexpensive investment vehicle that features safety, daily liquidity and yield for Illinois public funds programs. The fund is managed by the Office of the State Treasurer in Springfield, Illinois, and contained a combined \$5.4 billion in total assets as of December 31, 2018. The fund is currently rated AAAm by Standard & Poor's.

Illinois Funds Account Overview

Illinois Funds	
Beginning Value (9/30/2018)	\$78,434,668.17
Net Deposits (Withdrawals)	(\$3,494,814.69)
Interest Earned	\$422,174.44
Ending Value (12/31/18)	\$75,362,027.92

**Illinois Funds
Sector Allocation
as of December 31, 2018**



	Current Yield as of 12/31/18
Illinois Funds	2.53%
Benchmark: S&P Rated Government Investment Pool Index	2.21%

Weighted Average Maturity	47 Days
----------------------------------	---------

U.S. Bank Commercial Paper Sweep

Investment Approach

- In lieu of providing collateral on daily operating liquidity balances, US Bank provides a daily commercial paper investment sweep option. Deposits are automatically moved to the sweep account at the end of each business day and invested overnight in US Bank National Association commercial paper, an unsecured, short-term promissory note. Funds from the maturing commercial paper are available on the next business day. US Bank commercial paper carries a credit rating of A-1+ by Standard & Poor's and P-1 by Moody's.

U.S. Bank Commercial Paper Sweep Account Overview

U.S. Bank Commercial Paper Sweep	
Beginning Value (9/30/2018)	\$17,586,586.92
Net Deposits (Withdrawals)	\$26,047,142.47
Interest Earned	\$108,712.30
Ending Value (12/31/18)	\$43,742,441.69

	Current Yield as of 12/31/18
U.S. Bank Commercial Paper Sweep	1.85%
Benchmark: S&P Rated Government Investment Pool Index	2.21%

Capital Investments

Capital Investments Position

Investment Balance Market Value (\$ in millions)	12/31/2017	3/31/2018	6/30/2018	9/30/2018	12/31/2018
Housing & Auxiliary Facilities System					
Construction Proceeds	-	-	-	-	-
Interest Sinking Fund	18.0	25.1	7.1	13.3	15.4
Debt Service Reserve	8.3	8.3	6.1	6.1	6.2
Total HAFS	26.3	33.4	13.2	19.4	21.5
Medical Facilities System					
Construction Proceeds	-	-	-	-	-
Interest Sinking Fund	1.2	1.7	0.5	0.9	1.3
Debt Service Reserve	-	-	-	-	-
Total MFS	1.2	1.7	0.5	0.9	1.3
Certificates of Participation					
Construction Proceeds	2.6	2.2	1.5	1.1	0.7
Interest Sinking Fund	-	-	-	-	-
Debt Service Reserve	-	-	-	-	-
Total COPS	2.6	2.2	1.5	1.1	0.7
Total Market Value of Portfolio	\$ 30.1	\$ 37.3	\$ 15.1	\$ 21.5	\$ 23.6
Investment Balance Book Value (\$ in millions)	\$ 30.2	\$ 37.3	\$ 15.1	\$ 21.6	\$ 23.6

**Capital Investments are managed internally and are invested in high quality, low risk government securities. The investment maturity, rate of return and type are limited by covenants in the debt financing documents.*

IMPORTANT DISCLOSURES

This material is based on information obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some, but not all of which, are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.

- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Interactive Data, 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.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- 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.
- Any information contained in this report pertaining to Illinois Funds, US Bank Commercial Paper Sweep, and the Capital Investments Position were sourced from their respective month end statements. Information for the Intermediate and Short-Term Portfolios was sourced from their respective quarter-end statements provided by PFM.

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.
- **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 DURATION:** Represents each sector or maturity range's relative contribution to the overall duration of the portfolio measured as a percentage weighting. Since duration is a key measure of interest rate sensitivity, the contribution to duration measures the relative amount or contribution of that sector or maturity range to the total rate sensitivity of the portfolio.
- **DURATION TO WORST:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years, computed from cash flows to the maturity date or to the put date, whichever results in the highest yield to the investor.
- **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.

GLOSSARY

- **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.
- **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.
- **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.