CITY OF KIRKLAND
INVESTMENT POLICY
(ADOPTED NOVEMBER 17, 2020)

Policy Statement

This Policy establishes standards and guidelines for the direction, management and oversight for all of the City of Kirkland's ("City") investable funds. These funds include cash for liquidity purposes, intermediate investments for ongoing operations and long-term investments for dedicated accounts. Funds must be invested prudently to assure preservation of principal, provide needed liquidity for daily cash requirements, and provide a market rate of return. For purposes of the City's Investment Policy, safety and liquidity are higher priorities than return on investment. All investments must conform to federal, state, and local statutes governing the City of Kirkland public funds investments.

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1.0 INTRODUCTION

This Investment Policy defines the parameters within which funds are to be invested by the City of Kirkland (City). This Policy also formalizes the framework to provide the investment authority and constraints for the City to maintain an effective and judicious management of funds within the scope of this Policy.

This Policy is intended to be broad enough to allow the Director of Finance and Administration, or authorized designee, to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

- Sets out guidelines for the prudent management of the City's funds;
- Describes realistic parameters and goals for safely investing those funds;
- Establishes expectations for generally acceptable returns at a suitable level of risk that matches the purpose of the City's funds;
- Provides the framework within which the Director of Finance and Administration will operate by setting out objectives, guidelines, and structure that include details on the universe of permitted investments and any restrictions of their use.

The City Council reserves the right to amend this policy as deemed necessary.

2.0 GOVERNING AUTHORITY

The City of Kirkland investment authority is derived from RCW Chapters 35, 39 and 43. The investment program shall be operated in conformance with the Revised Code of Washington and applicable Federal Law. All funds within the scope of this policy are subject to regulations established by the State of Washington.

The City Council has the direct authority to provide for the Director of Finance and Administration or his/her designee, the responsibility for the daily operations of the City's investment program and activities. (Kirkland Municipal Code (KMC) Chapter 5.24)

3.0 SCOPE OR IDENTIFICATION OF FUNDS

This policy applies to activities of the City of Kirkland with regard to investing the financial assets of all funds. The amount of funds expected to fall within the scope of this policy is $90 million to $120 million, which include, but not limited to, operating, capital improvement, and restricted funds.

This investment policy applies to all investment transactions involving the financial assets and related activity of all City funds.

4.0 OBJECTIVES

All funds will be invested in a manner that is in conformance with federal, state and other legal requirements. The objectives, in order of priority, of the investment activities will be as follows:

4.1 Safety: Safety of principal is the primary objective of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, funds will be diversified, utilizing highly rated securities, by investing in a variety of securities and financial institutions. The investment portfolio will be invested in a manner that meets RCW statutes and all legal requirements of the City.

4.2 Liquidity: The investment portfolio will provide liquidity sufficient to enable the City to meet all cash requirements that might reasonably be anticipated. Therefore, the investments shall be managed to maintain a minimum balance to meet daily obligations.

4.3 Return on Investment: The investment portfolio will be structured with the objective of attaining a market rate of return throughout economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio. Nevertheless, return on investment is a lesser objective than safety or liquidity.

5.0 STANDARDS OF CARE

5.1 Delegation of Authority:
Governing Body: The ultimate responsibility and authority for the investment of City funds resides with the City Council who has the authority to direct the management of the City investment program.

Authority: Pursuant to the KMC 5.24 and Resolution 5087, the overall management responsibility for the investment program is hereby delegated to the Director of Finance and Administration, or designee, who shall establish written procedures for the operation of the investment program, consistent with this investment policy. The Director of Finance and Administration shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Investment Advisor: The City may contract with an external non-discretionary investment advisor (Advisor) to assist with the management of the City's investment portfolio in a manner that is consistent with the City's objectives and this policy. Such Advisors shall provide recommendations and advice regarding the City investment program including but not limited to advice related to the purchase and sale of investments by this Investment Policy.

5.2 Prudence:
The standard of prudence to be used by the Director of Finance and Administration or any designees in the context of managing the overall portfolio is the prudent person rule which states: *Investments will 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 in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital.*

The Director of Finance and Administration and authorized investment officers and employees who act in accordance with the Director of Finance and Administration's written procedures and the City's Investment Policy, and who exercise due diligence, shall be relieved of personal responsibility for the credit risk or market price change of an investment, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

5.3 Ethics:

5.3.1 Employees Involved in the City Investment Program Must Avoid Conflicts of Interest. Association with the investment program in any capacity is considered employee involvement. Employees must avoid personal business activity that may:

- Conflict with the proper execution of the investment program.
- Impair their ability to make impartial investment decisions.

5.3.2 Employees Associated with the City Investment Program Must Disclose Certain Personal Information to the Director of Finance and Administration or his/her Designee. All disclosures shall be reported at each Investment Committee meeting.

The disclosure should list:

- Any material interests in financial institutions that conduct business with the City.
- Any personal financial or investment positions that could influence the performance of the City's investment portfolio, particularly with regard to the timing of purchases and sales.
- Any related interest or personal financial positions that could be perceived as conflict of interest.

6.0 SAFEKEEPING, CUSTODY, AND CONTROLS

6.1 Delivery vs. Payment:

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City's safekeeping institution prior to the release of funds.

6.2 Third Party Safekeeping:

Prudent treasury management requires that all purchased securities be bought on a delivery versus payment (DVP) basis and be held in safekeeping by an independent third-party financial institution or the City's designated depository.

The Director of Finance and Administration shall designate all safekeeping arrangements and an agreement of the terms shall be executed in writing. The third-party custodian shall be required to provide a statement to the City listing at a minimum each specific security, book yield, description, maturity date, market value, par value, purchase date, and CUSIP number.

All collateral securities pledged to the City for certificates of deposit or demand deposits shall be held in accordance with the State of Washington's Public Deposit Protection Commission (PDPC).

6.3 Internal Controls:

The Director of Finance and Administration is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. Specifics for the internal controls shall be documented in an investment procedures manual.

The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- Control of collusion;
- Separation of transaction authority from accounting and recordkeeping;
- Custodial safekeeping;
- Avoidance of physical delivery of marketable securities;
- Clear delegation of authority to subordinate staff members;
- Written confirmation of transactions for investments and wire transfers;
- Dual authorizations of wire transfers;
- Staff training; and
- Review, maintenance and monitoring of security procedures both manual and automated.

6.4 External Controls

The City will have an external review of the Investment Policy and procedures every three (3) years. The City may enter contracts with third-party investment advisory firms when their services are required.

7.0 AUTHORIZED FINANCIAL DEALERS

7.1 Broker/Dealers:

The Director of Finance and Administration shall maintain and review annually a list of all authorized financial institutions and broker/dealers that are approved to transact with the City for investment purposes. The City shall follow GFOA best practices for evaluating and selecting financial institutions and broker/dealers.

The Director of Finance and Administration or designee may utilize the investment advisor's approved broker/dealer list in lieu of the City's own approved list. The Advisor must submit the approved list to the City annually and provide updates throughout the year as they occur. The Advisor must maintain documentation of appropriate license and professional credentials of broker/dealers on the list. The annual investment advisor broker/dealer review procedures include:

a. FINRA Certification check:
    i. Firm profile
    ii. Firm history
    iii. Firm operations
    iv. Disclosures of arbitration awards, disciplinary and regulatory events
    v. State Registration Verification
b. Financial review of acceptable FINRA capital or letter of credit for clearing settlements.

The Advisor may be authorized through the contracted agreement to open accounts on behalf of the City with the broker/dealers on the approved broker dealer list.

7.2 Investment Advisors:

Advisors must be registered under the Investment Advisers Act of 1940 and must act in a non-discretionary capacity, requiring approval from the City prior to all transactions.

7.3 Bank Institutions:
The City will only place funds, exceeding the current FDIC insurance limits, with banks who are currently participating in the Washington State PDPC program. Compliance/listing with the PDPC will be verified by the Advisor or designated investment officer utilizing the Washington State Treasurer's website.

7.4 Competitive Transactions:
Transactions must be executed on a competitive basis and documented. Competitive prices should be provided from at least three separate brokers, financial institutions or through a national electronic trading platform. If the purchased security is only offered by one broker, then other securities with similar structure may be used for documentation purposes. When an Advisor handles trade executions, they must provide the competitive documentation as requested.

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

8.1 Authorized Investments:

Eligible investments are only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080):

Among the authorized investments are U.S. Treasury and Agency securities (i.e., obligations of any government sponsored enterprise eligible for collateral purposes at the Federal Reserve), municipal debt, certificates of deposit with qualified public depositories within statutory limits as promulgated by the Washington State PDPC at the time of investment, foreign and domestic Bankers Acceptances, Commercial Paper and the Washington State Local Government Investment Pool.

The State of Washington Local Government Investment Pool is the only government-sponsored Pool approved for investment of funds.

- This policy recognizes S&P, Moody's and Fitch as the major Nationally Recognized Statistical Ratings Organizations (NRSRO).
- In the case of split ratings, where the major NRSROs issue different ratings, the lower rating shall apply. Minimum credit ratings and percentage limitations apply to the time of purchase.
- All securities must be purchased on the secondary market and may not be purchased directly from the issuer.

8.2 Suitable Investments:
The City is empowered to invest in the following types of securities:

US Treasury Obligations: Direct obligations of the United States Treasury.

US Agency Obligations Primary Issuers: Government Sponsored Enterprises (*GSEs*) – Federal Instrumentality Securities include, but are not limited to Federal National Mortgage Association (*FNMA*), the Federal Home Loan Mortgage Corporation (*FHLMC*), Federal Home Loan Banks (*FHLB*), and the Federal Farm Credit Banks (*FFCB*).

US Agency Obligations Secondary Issuers: Other US government sponsored enterprises that are less marketable are considered secondary GSEs. They include, but are not limited to: Private Export

Funding Corporation (PEFCO), Tennessee Valley Authority (TVA), Financing Corporation (FICO) and Federal Agricultural Mortgage Corporation, (Farmer Mac).

Municipal Debt Obligations: Bonds of the State of Washington, any local government in the State of Washington, General Obligation bonds outside the State of Washington; at the time of investment the bonds must have must have at a minimum rating of AA- from S&P, Aa3 from Moody's or AA- from Fitch.

Commercial Paper: Unsecured debt obligations of corporate issuers that are rated at least A1+ by S&P, P1 by Moody's and F1+ by Fitch. Must be rated by two NRSROs at the time of purchase. If the commercial paper is rated by more than two NRSROs, it must have the highest rating from all of them. Commercial paper holdings may not have maturities exceeding 270 days. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase with a minimum rating of AA- by S&P, Aa3 by Moody's or AA- by Fitch.

Certificates of Deposit: Non-negotiable Certificates of Deposit of financial institutions that are qualified public depositories as defined in RCW 39.58.010(2) and by the restrictions within.

Time Deposits and Savings Accounts Issued by Banks: Deposits in PDPC approved banks.

Banker's Acceptance: Banker's Acceptances generally are created based on a letter of credit issued to finance transactions. They are used to finance the shipment of some specific goods within the United States. They are issued by qualified financial institutions.

Local Government Investment Pool: Investment Pool managed by the Washington State Treasurer's Office.

8.3 Bank Collateralization:

The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. Under RCW 39.58.240, all public treasurers and other custodians of public funds are relieved of the responsibility of executing tri-party agreements, reviewing pledged securities, and authorizing additions, withdrawals, and exchanges of collateral.

9.0 INVESTMENT PARAMETERS

9.1 Diversification:

The City will diversify the investment of all funds by adhering to the constraints by issuer type in accordance with the following table:

Table of Constraints on the Portfolio

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P	Ratings Moody's	Ratings Fitch
US Treasury Obligations	100%	None	N/A	N/A	N/A
US Agency Primary Securities FHLB, FNMA, FHLMC, FFCB	100%	30%	N/A	N/A	N/A
US Agency Secondary Securities FICO, FARMER MAC etc.	20%	10%	AA-	Aa3	AA-
Municipal Bonds	20%	5%	AA-	Aa3	AA-
Commercial Paper	25%	3%	A1+ Long Term AA-	P1 Long Term Aa3	F1+ Long Term AA-
Certificates of Deposit	10%	5%	Deposits in PDPC approved banks	Deposits in PDPC approved banks	Deposits in PDPC approved banks
Bank Time Deposits/Savings Accounts	50%	None	Deposits in PDPC approved banks	Deposits in PDPC approved banks	Deposits in PDPC approved banks
Banker's Acceptance	5%	5%	A-	A3	A-
Washington LGIP	100%	None	N/A	N/A	N/A

9.2 Investment Maturity:

The City will not directly invest in securities maturing more than five (5) years from the date of purchase.

- The maximum weighted maturity of the total portfolio shall not exceed 3 years. This maximum is established to limit the portfolio to excessive price change exposure.
- Liquidity funds will be held in the State Pool, PDPC bank deposits, or cash matched securities.
- Investment funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between 1 day and 5 years and will be only invested in high quality and liquid securities.

- Total Portfolio Maturity Constraints:

Maturity Constraints	Minimum % of Total Portfolio
Under 30 days	10%
Under 1 year	25%
Under 5 years	100%
Maturity Constraints	**Maximum of Total Portfolio in Years**
Weighted Average Maturity	3.00
Security Structure Constraint	**Maximum % of Total Portfolio**
Callable Agency Securities	25%

- Exception to 5 year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding 5 years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

9.3 Strategic Allocations:

9.3.1 Funds and their Allocation

a. Liquidity funds for the operating account will be allocated to LGIP, CD's, PDPC Bank Deposits, Bankers Acceptances, and Commercial Paper.
b. The structure of the Investment Core Fund will be targeted to a selected market benchmark based on the risk and return objectives of the portfolio.
c. Longer term restricted funds will have an identified market benchmark to manage risk and return.

9.3.2 Monitoring and Portfolio Adjustment: As a general practice, securities will be purchased with the intent to hold to maturity. However, it is acceptable for securities to be sold under the following circumstances:

a. A security with a declining credit may be sold early to protect the principal value of the portfolio.
b. The portfolio duration or maturity buckets should be adjusted to reflect better the structure of the underlying benchmark portfolio.
c. A security exchange that would improve the quality, yield and target maturity of the portfolio based on market conditions.
d. A sale of a security to provide for unforeseen liquidity needs.

9.4 Prohibited Investments:

9.4.1 The City shall not lend securities nor directly participate in a securities lending or reverse repurchase program.

9.4.2 The City shall not invest in:

a. Mortgage-backed securities
b. Derivative Products
c. Securities that leverage the portfolio or are used for speculation of interest rates
d. Mutual Funds
e. Repurchase Agreements
f. Reverse Agreements

10.0 REPORTING REQUIREMENTS

10.1 Reporting:

The Director of Finance and Administration shall be responsible for investment reporting. At a minimum, quarterly reporting shall be made to the City Council including but not limited to securities holdings, cash balances, and market values in the investment portfolio.

Specific Requirements:

- Book Yield
- Holdings Report including mark-to-market and security description
- Transactions Report
- Weighted Average Maturity

10.2 Performance Standards:

The portfolio shall be managed to obtain a fair rate of return and earnings rate that incorporates the primary objectives of protecting the City's capital and assuring adequate liquidity to meet cash flow needs.

The investment portfolio will be invested into a predetermined structure that will be measured against a selected benchmark portfolio. The structure will be based upon a chosen minimum and maximum duration (average maturity) and will have the objective to achieve market rates of returns over long investment horizons. The purpose of a benchmark is to appropriately manage the risk in the portfolio through interest rate cycles. The investment portfolio is expected to provide similar returns to the benchmark over interest rate cycles, but may underperform or outperform in certain periods. The portfolio will be positioned to first protect principal and then achieve market rates of return. The benchmark used will be a US treasury 0-3 year index or US treasury 0-5 year index and comparisons will be calculated monthly and reported quarterly.

The liquidity component yield will be compared quarterly to the LGIP average yield.

10.3 Compliance Report

A compliance report will be generated quarterly comparing the portfolio positions to this investment policy.

10.4 Accounting Method

The City shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies including but not necessarily limited to the Governmental Accounting Standards Board (GASB).

Pooling of Funds: Except for cash in certain restricted and special funds, the City will consolidate balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation in the investment program and in accordance with generally accepted accounting principles.

11.0 INVESTMENT POLICY ADOPTION

The City's Investment Policy shall be adopted by the City Council.

The Policy shall be reviewed annually by the Investment Committee. Any modifications shall be submitted and approved by City Council.

12.0 GLOSSARY OF TERMS

Accrued Interest: The interest accumulated on a bond since issue date or the last coupon payment. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

Agency: A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally Sponsored Agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. (Also see FEDERAL AGENCY SECURITIES and GOVERNMENT SECURITY)

Agency Securities: Government sponsored enterprises of the US Government**.**

Amortization: In portfolio accounting, periodic charges made against interest income on premium bonds in anticipation of receipt of the call price at call or of par value at maturity.

Asset: Available property, as for payment of debts

Average Maturity: A weighted average of the expiration dates for a portfolio of debt securities. An income fund's volatility can be managed by shortening or lengthening the average maturity of its portfolio.

Bankers' Acceptances: A time draft accepted (endorsed) by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. BAs are short-term non-interest-bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value.

Bank Wire: A virtually instantaneous electronic transfer of funds between two financial institutions.

Basis Point: A measure of an interest rate, i.e., 1/100 of 1 percent, or .0001.

Bid: The indicated price at which a buyer is willing to purchase a security or commodity. When selling a security, a bid is obtained. (See Offer)

Bond: An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and specific assets sometimes secure it. Most bonds have a maturity of greater than one year and generally pay interest semiannually.

Broker: An intermediary who brings buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

Certificates of Deposit: Instruments issued by a bank specifying that a sum of money has been deposited, payable with interest to the bearer of the certificate on a certain date.

Collateral: Securities or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: Short-term, unsecured, negotiable promissory notes issued by corporations.

Current Maturity: The amount of time left until an obligation matures. For example, a one-year bill issued nine months ago has a current maturity of three months.

CUSIP: A CUSIP number identifies securities. CUSIP stands for Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

Dealer: An individual or firm that ordinarily acts as a principal in security transactions. Typically, dealers buy for their account and sell to a customer from their inventory. The dealer's profit is determined by the difference between the price paid and the price received.

Delivery: Either of two methods of delivering securities: delivery vs. payment and delivery vs. receipt (also called "free"). Delivery vs. payment is the delivery of securities with an exchange of money for the securities.

Diversification: Dividing available funds among a variety of securities and institutions to minimize market risk.

Duration: A measure used to calculate the price sensitivity of a bond or portfolio of bonds to changes in interest rates. This equals the sum of the present value of future cash flows.

Full Faith and Credit: Indicator that the unconditional guarantee of the United States government backs the repayment of debt.

General Obligation Bonds (GOs): Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.

Government Bonds: Securities issued by the federal government; they are obligations of the U.S. Treasury; also known as "governments."

Interest: Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

Investment Core Funds: Core funds are defined as operating fund balance and other fund balances that exceeds the City's daily liquidity needs. Core funds are invested out the yield curve to diversify maturity structure in the overall portfolio. Having longer term investments in a portfolio will stabilize the overall portfolio interest earnings over interest rate cycles.

Investment Securities: Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

Liquidity: The ease at which a security can be bought or sold (converted to cash) in the market. A large number of buyers and sellers and a high volume of trading activity are important components of liquidity.

Liquidity Component: A percentage of the total portfolio that is dedicated to providing liquidity needs for the City.

LGIP: Local Government Investment Pool run by the State of Washington Treasurer's office established to help cities with short-term investments.

Mark to Market: Adjustment of an account or portfolio to reflect actual market value rather than book price, purchase price or some other valuation.

Market Value: The market value of a security is the price at which can be sold on that date.

Maturity: The date upon which the principal or stated value of an investment becomes due.

Municipals: Securities, usually bonds, issued by a state, its agencies, by cities or other municipal entities. The interest on "munis" is usually exempt from federal income taxes and state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency's taxation powers.

Non-Discretionary Investment Advisor: Non-discretionary investment advisor services may include investment management oversight, investment research, portfolio analysis, portfolio reporting and portfolio recommendations based upon the specific investment policy and investment objectives of each client. Clients must approve any such recommendations before the securities are purchased or sold in their accounts.

Par Value: The value of a security expressed as a specific dollar amount marked on the face of the security or the amount of money due at maturity. Par value should not be confused with market value.

Portfolio: A collection of securities held by an individual or institution.

Principal: The cost of an instrument on which interest is earned.

Prudent Person Rule: A long-standing common-law rule that requires a trustee who is investing for another to behave in the same way as a prudent individual of reasonable discretion and intelligence who is seeking a reasonable income and preservation of capital.

Quotation or Quote: A bid to buy or the lowest offer to sell a security in any market at a particular time.

Repurchase Agreement: Range in maturity from overnight to fixed time to open end. Repos involve a simultaneous sale of securities by a bank or government securities dealer to an investor with an agreement for the bank or government securities dealer to repurchase the securities at a fixed date at a specified rate of interest.

Safekeeping: An arrangement under which an organization's securities are kept in a bank vault or in the case of book entry securities, are held and recorded in the customer's name. Evidence of this arrangement is a safekeeping receipt.

Secondary Market: A market where certain securities may be bought and sold at prevailing market prices after their initial distribution but before their stated maturity date.

Treasury Bill (T-Bill): An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount.

Treasury Bonds and Notes: Obligations of the U.S. government that bear interest. Notes have maturities of one to ten years; bonds have longer maturities.

Yield: The annual rate of return on an investment expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security. 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.

Yield to Maturity: The average annual yield on a security, assuming it is held to maturity; equals to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond.