

School District of Lake County



Investment Performance Review Quarter Ended December 31, 2016

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Tab I

- Market Update

Tab II

- Executive Summary
- Impact Fee Portfolio

Tab III

- Asset Allocation Chart
- Important Disclosures

Tab I

QUARTERLY MARKET SUMMARY

Summary

- Bond yields and equity prices soared following the U.S. presidential election in November, as President-elect Donald Trump's proposed policies and his intentions to ramp up government spending boosted inflation expectations and growth forecasts. Major stock indexes including the S&P 500, NASDAQ, and Dow Jones Industrial Average closed at record highs during the quarter.
- On December 14, the Federal Open Market Committee (FOMC) raised the federal funds target range by 0.25% to a range of 0.50% to 0.75%. The unanimous decision, in line with market expectations, was the first rate hike since December 2015. The FOMC also released updated economic forecasts and a new "dot plot," forecasting three rate hikes in 2017.
- Central banks outside the U.S. continued to pursue accommodative monetary policy amid slow growth and low inflation. The European Central Bank (ECB) kept its benchmark interest rate at 0% and continued its asset purchase program, as did the Bank of England (BOE). At the same time, the Bank of Japan (BOJ) continued its quantitative easing programs aimed at keeping the 10-year Japanese government bond yield near 0% and expanding money supply until inflation remains above the 2% target.
- The Organization of the Petroleum Exporting Countries (OPEC) agreed in late November to a combined reduction in daily production. The agreement caused the price of oil to increase more than 10% during the fourth quarter.

Economic Snapshot

- The U.S. economy gained momentum during the latter half of the year. The labor market continued to show strength, booking a solid quarter of job gains. The housing market also strengthened in the fourth quarter as Americans continued to take advantage of historically low interest rates, driving home sales to decade-high levels.
- U.S. gross domestic product (GDP) grew at a 3.5% rate in the third quarter, rebounding from modest growth during the first half of 2016. (Fourth quarter GDP data is not yet available.) Consumer spending and exports contributed to the pick-up in expansion, while private inventories grew for the first time since the start of 2015.
- The unemployment rate fell to 4.6% during the fourth quarter — a post-recession low. In another positive sign, job openings remained near record highs, while initial unemployment filings remained near record lows.

December's addition of 156,000 jobs finished a year of solid job growth performance in which the U.S. added 2.2 million net new jobs. For the year, wages rose 2.9%, the fastest pace since 2009.

- Americans continued to feel more confident about the economy as the Conference Board's December reading climbed to a 15-year high, and sentiment strengthened further as the University of Michigan's Consumer Sentiment Index reached its highest level since January 2004.

Interest Rates

- Interest rates surged in the fourth quarter, ending the year with net increases and a steeper yield curve. The two-year Treasury yield increased 43 basis points (bps) for the quarter, while the yield on the 10-year Treasury rose 85 bps — a considerable rebound from July's record-low yield.
- In the money market space, shorter-term Treasury yields rose alongside expectations of a Federal Reserve rate hike. Money market reforms took effect in October, significantly altering the supply-demand dynamic in the money markets. Yields on short-term credit instruments, such as commercial paper and negotiable bank certificates of deposit (CDs), continued to remain elevated and offer significant incremental yield.

Sector Performance

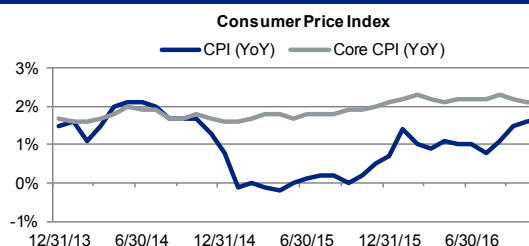
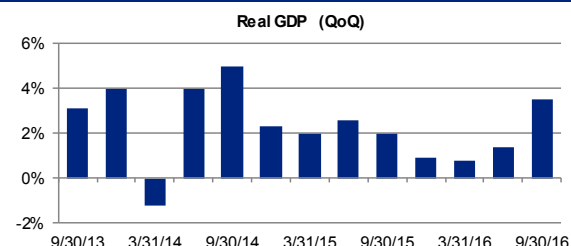
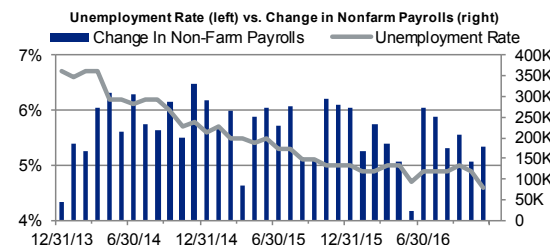
- U.S. Treasury indexes posted losses for the fourth quarter, declining for the second straight quarter as yields rose. For the year, returns were positive but muted. Shorter maturity issues outperformed longer maturities as the yield curve steepened.
- Federal agency yield spreads drifted tighter during the quarter as supply diminished, leading to the sector's modest outperformance relative to comparable-maturity Treasuries.
- Corporate yield spreads remained mostly unchanged until the November 8 presidential election, after which they tightened, reaching new lows for the year. Corporates outperformed Treasuries every quarter in 2016, resulting in the sector's best year since 2012.
- Mortgage-backed securities (MBS) generally underperformed Treasuries amid increased extension risk due to the rise in interest rates. Asset-backed securities (ABS) outperformed Treasuries due to declining prepayment risk.

Economic Snapshot

Labor Market		Latest	Sep 2016	Dec 2015
Unemployment Rate	Nov16	4.6%	5.0%	5.0%
Change In Non-Farm Payrolls	Nov16	178,000	208,000	271,000
Average Hourly Earnings (YoY)	Nov16	2.5%	2.7%	2.6%
Personal Income (YoY)	Nov16	3.5%	3.6%	4.0%
Initial Jobless Claims (week)	12/24/16	265,000	246,000	285,000

Growth				
Real GDP (QoQ SAAR)	2016Q3	3.5%	1.4% ¹	2.0% ²
GDP Personal Consumption (QoQ SAAR)	2016Q3	3.0%	4.3% ¹	2.7% ²
Retail Sales (YoY)	Nov16	3.8%	3.3%	2.8%
ISM Manufacturing Survey (month)	Nov16	53.2	51.5	48.0
Existing Home Sales SAAR (month)	Nov16	5.61 mil.	5.49 mil.	5.45 mil.

Inflation / Prices				
Personal Consumption Expenditures (YoY)	Nov16	1.4%	1.2%	0.6%
Consumer Price Index (YoY)	Nov16	1.7%	1.5%	0.7%
Consumer Price Index Core (YoY)	Nov16	2.1%	2.2%	2.1%
Crude Oil Futures (WTI, per barrel)	Dec 31	\$53.72	\$48.24	\$37.04
Gold Futures (oz.)	Dec 31	\$1,152	\$1,313	\$1,060



1. Data as of Second Quarter 2016

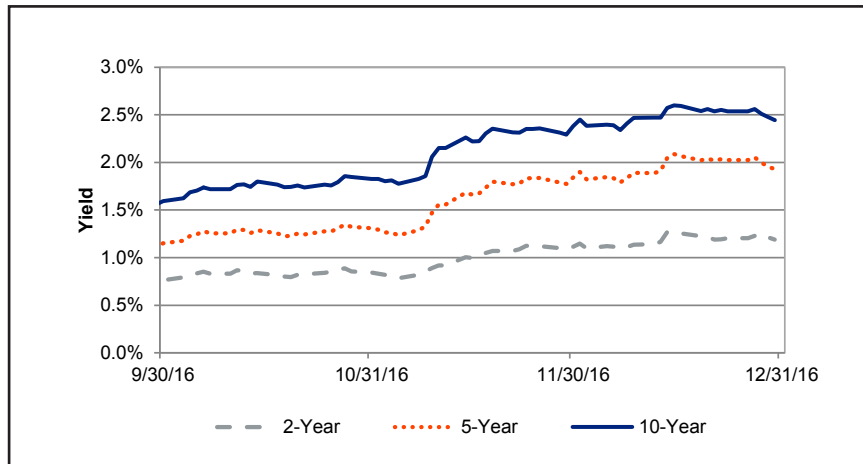
2. Data as of Third Quarter 2015

Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil

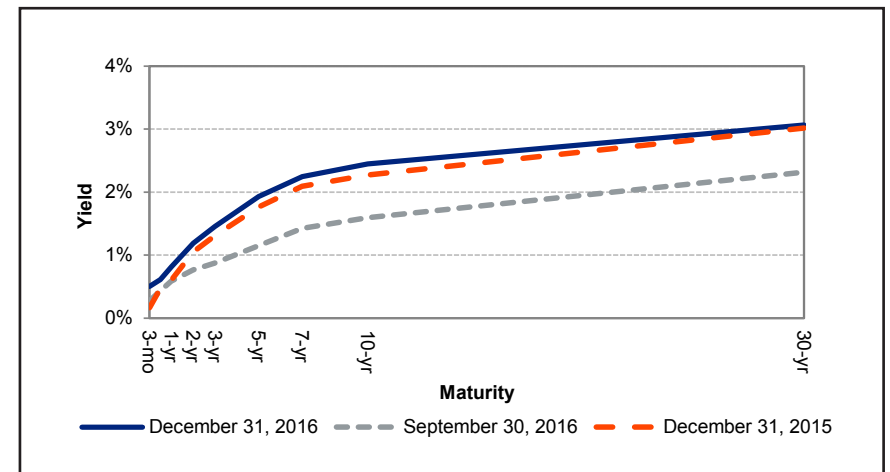
Source: Bloomberg.

Interest Rate Overview

U.S. Treasury Note Yields



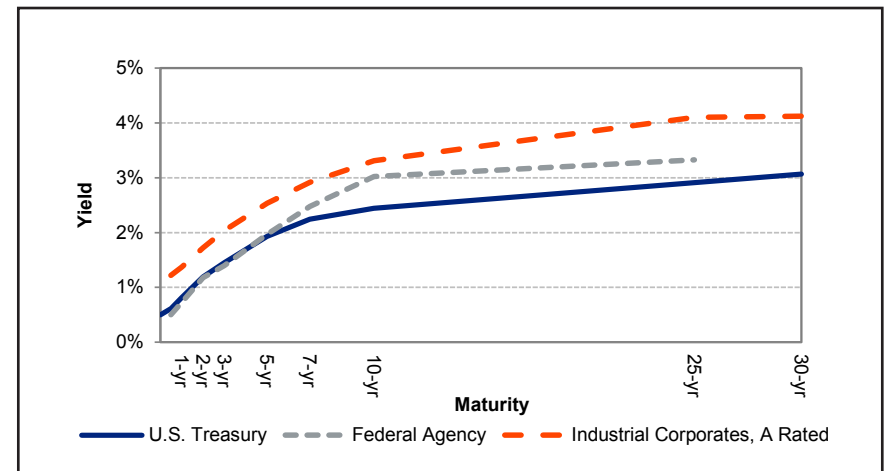
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	12/31/16	9/30/16	Change over Quarter	12/31/15	Change over Year
3-month	0.50%	0.28%	0.22%	0.17%	0.33%
1-year	0.81%	0.59%	0.22%	0.60%	0.21%
2-year	1.19%	0.76%	0.43%	1.05%	0.14%
5-year	1.93%	1.15%	0.78%	1.76%	0.17%
10-year	2.45%	1.60%	0.85%	2.27%	0.18%
30-year	3.07%	2.32%	0.75%	3.02%	0.05%

Yield Curves as of 12/31/16



Source: Bloomberg.

BofA Merrill Lynch Index Returns

	As of 12/31/16		Returns for Periods ended 12/31/16		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.89	1.18%	(0.43%)	0.89%	0.68%
Federal Agency	1.86	1.29%	(0.34%)	0.96%	0.78%
U.S. Corporates, A-AAA rated	1.85	1.89%	(0.28%)	1.81%	1.35%
Agency MBS (0 to 3 years)	2.10	1.95%	(0.91%)	0.52%	1.09%
Taxable Municipals	1.85	2.34%	(0.40%)	2.47%	2.34%
1-5 Year Indices					
U.S. Treasury	2.71	1.42%	(1.09%)	1.09%	1.10%
Federal Agency	2.33	1.45%	(0.72%)	1.12%	1.13%
U.S. Corporates, A-AAA rated	2.72	2.20%	(0.95%)	2.19%	1.94%
Agency MBS (0 to 5 years)	3.31	2.20%	(1.81%)	1.26%	2.12%
Taxable Municipals	2.53	2.41%	(0.80%)	3.15%	3.06%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.23	1.90%	(3.96%)	1.14%	2.63%
Federal Agency	3.97	1.82%	(2.08%)	1.50%	2.17%
U.S. Corporates, A-AAA rated	6.91	3.03%	(3.15%)	4.23%	4.04%
Agency MBS (0 to 30 years)	4.88	2.76%	(1.98%)	1.67%	3.04%
Taxable Municipals	3.86	2.96%	(1.77%)	3.64%	4.19%

Returns for periods greater than one year are annualized.

Source: BofA Merrill Lynch Indices.

Disclosures

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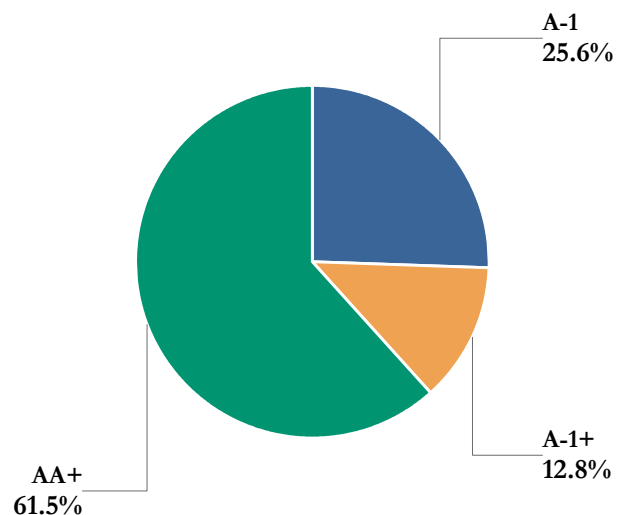
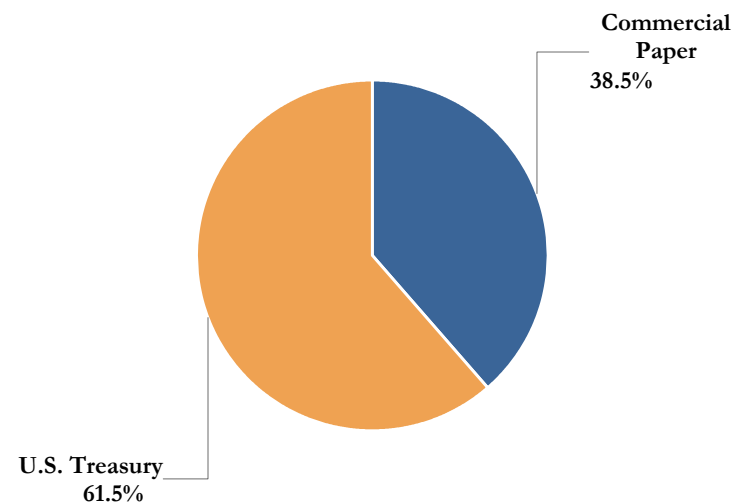
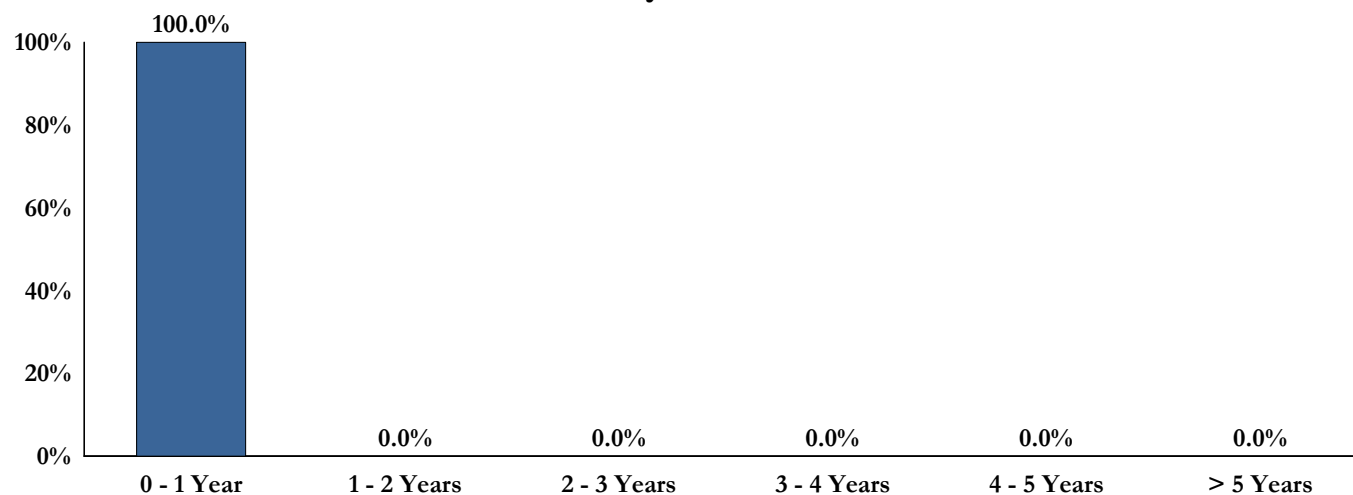
Tab II

- The Impact Fee Portfolio is of high credit quality and invested in U.S. Treasury and commercial paper securities.
- At quarter end, the Portfolio had a Yield to Maturity at Cost of 0.65%,
- We sought to generally maintain portfolio durations and maturity distributions comparable to those of benchmarks to reduce potential performance mismatches given the uncertain rate environment.
- Yields surged in the post-election period as expectations for U.S. economic growth and inflationary expectations rose, and in anticipation of a December FOMC rate hike.
- We will continue to monitor incoming economic data, Fed policy, and market relationships, adjusting portfolio positioning as needed. This will include monitoring and assessing the policies of the incoming Trump administration for their impact on economic and market conditions.

Portfolio Statistics

As of December 31, 2016

Par Value:	19,500,000
Total Market Value:	26,293,466
Security Market Value:	19,497,755
Accrued Interest:	20,219
Cash:	6,775,492
PFM	-
Amortized Cost:	19,496,252
Yield at Market:	0.57%
Yield at Cost:	0.65%
Effective Duration:	0.12 Years
Duration to Worst:	0.12 Years
Average Maturity:	0.12 Years
Average Credit: **	AA

Credit Quality (S&P Ratings)**Sector Allocation****Maturity Distribution**

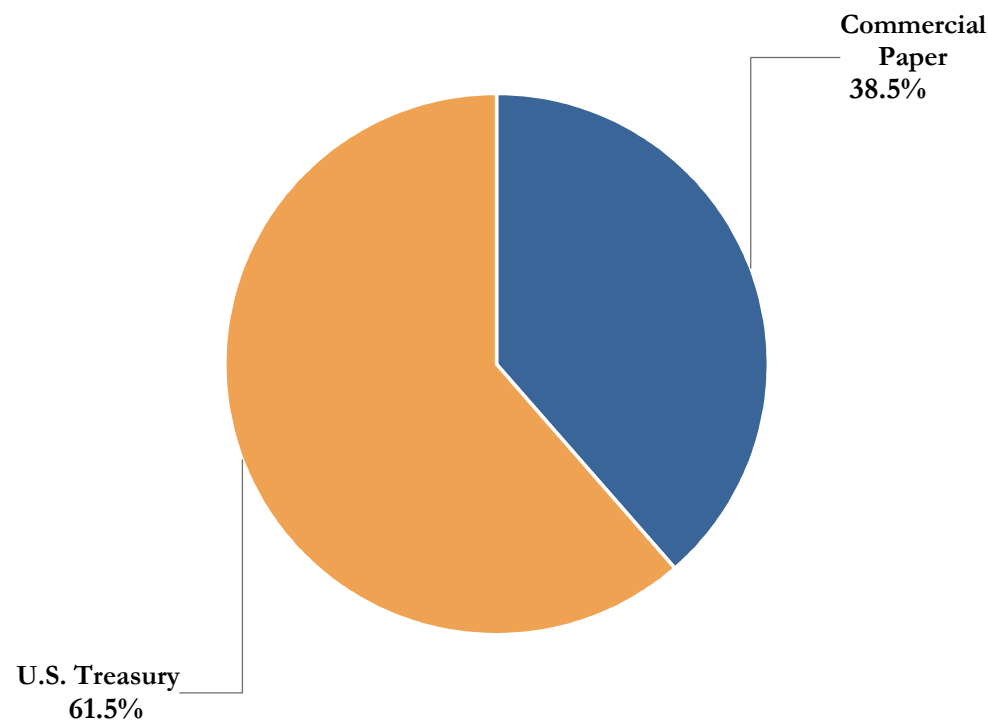
* An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

Portfolio Earnings
Quarter-Ended December 31, 2016

	Market Value Basis	Accrual (Amortized Cost) Basis
Beginning Value (09/30/2016)	\$25,489,727.50	\$25,482,794.35
Net Purchases/Sales	(\$6,000,000.00)	(\$6,000,000.00)
Change in Value	\$8,027.50	\$13,457.75
Ending Value (12/31/2016)	\$19,497,755.00	\$19,496,252.10
Interest Earned	\$24,438.65	\$24,438.65
Portfolio Earnings	\$32,466.15	\$37,896.40

Sector Allocation
As of December 31, 2016

Sector	Market Value (\$)	% of Portfolio
U.S. Treasury	12,000,960	61.5%
Commercial Paper	7,496,795	38.5%
Total	19,497,755	100.0%

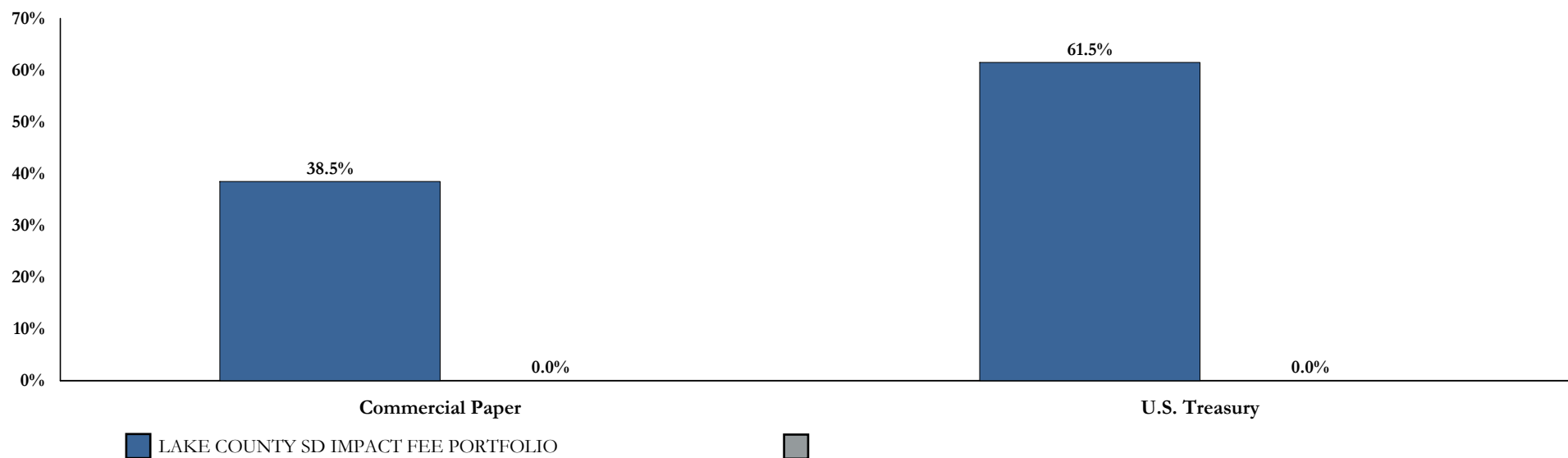


Detail may not add to total due to rounding.

Sector Allocation

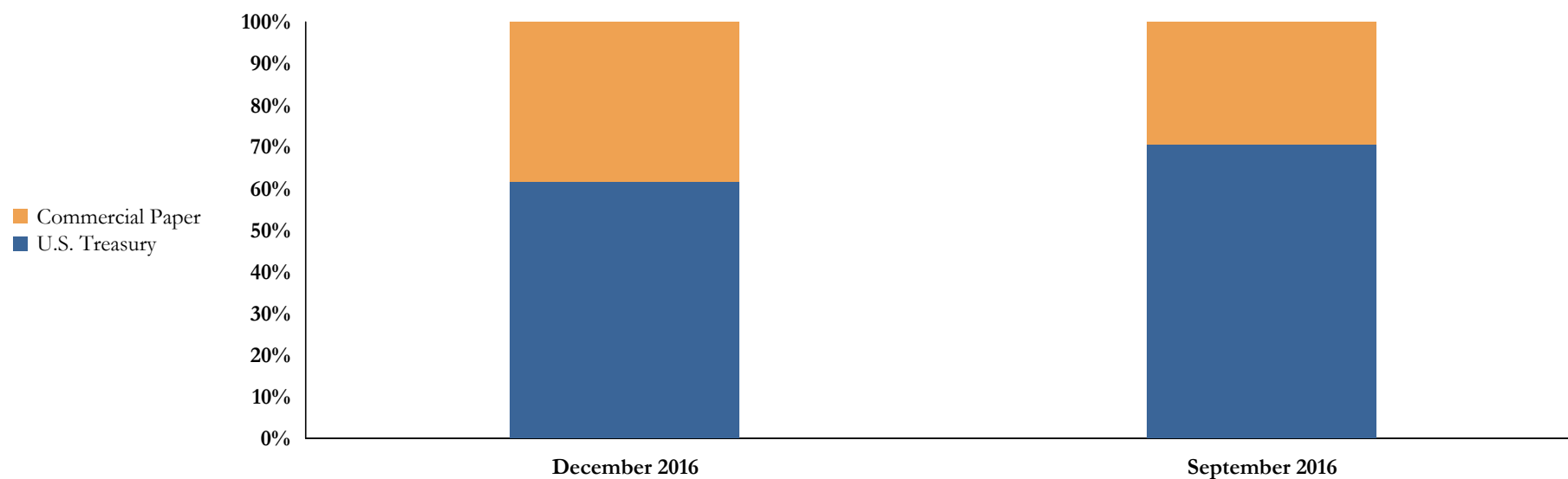
As of December 31, 2016

Sector	Market Value (\$)	% of Portfolio	% of Benchmark
U.S. Treasury	12,000,960	61.5%	-
Commercial Paper	7,496,795	38.5%	-
Total	19,497,755	100.0%	0.0%

*Detail may not add to total due to rounding.*

Sector Allocation

Sector	December 31, 2016		September 30, 2016		June 30, 2016		March 31, 2016	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
U.S. Treasury	12.0	61.5%	18.0	70.6%	0.0	0.0%	0.0	0.0%
Commercial Paper	7.5	38.5%	7.5	29.4%	0.0	0.0%	0.0	0.0%
Total	\$19.5	100.0%	\$25.5	100.0%	\$0.0	0.0%	\$0.0	0.0%

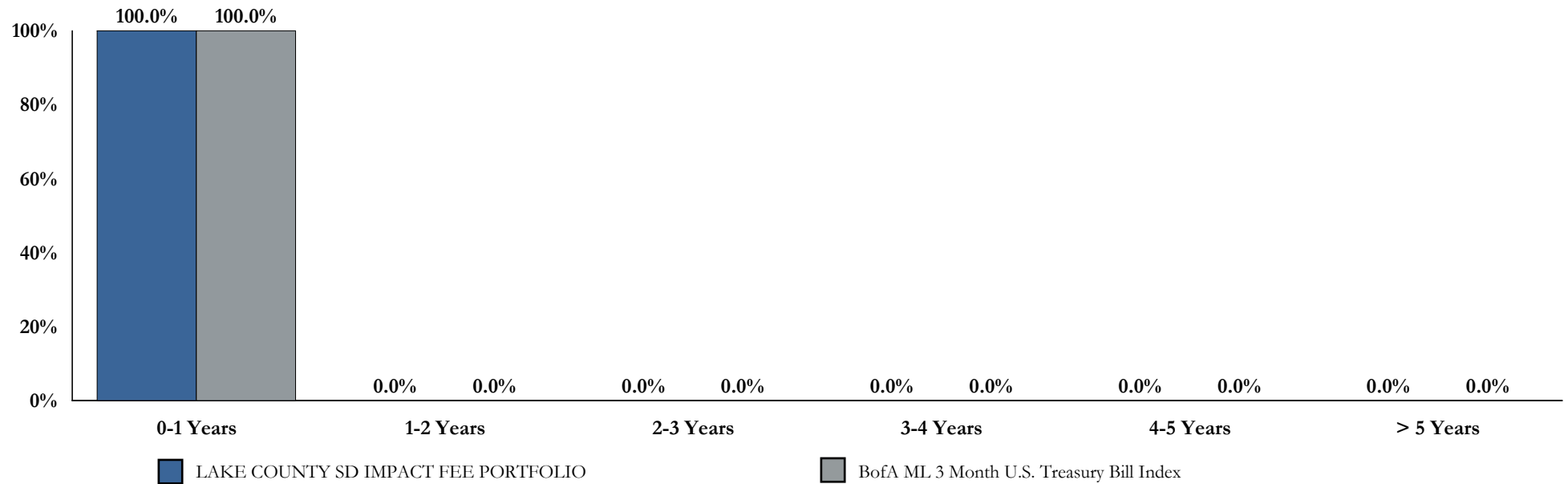


Detail may not add to total due to rounding.

Maturity Distribution

As of December 31, 2016

Portfolio/Benchmark	Yield at Market	Average Maturity	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	>5 Years
LAKE COUNTY SD IMPACT FEE PORTFOLIO	0.57%	0.12 yrs	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BofA ML 3 Month U.S. Treasury Bill Index	0.49%	0.24 yrs	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%

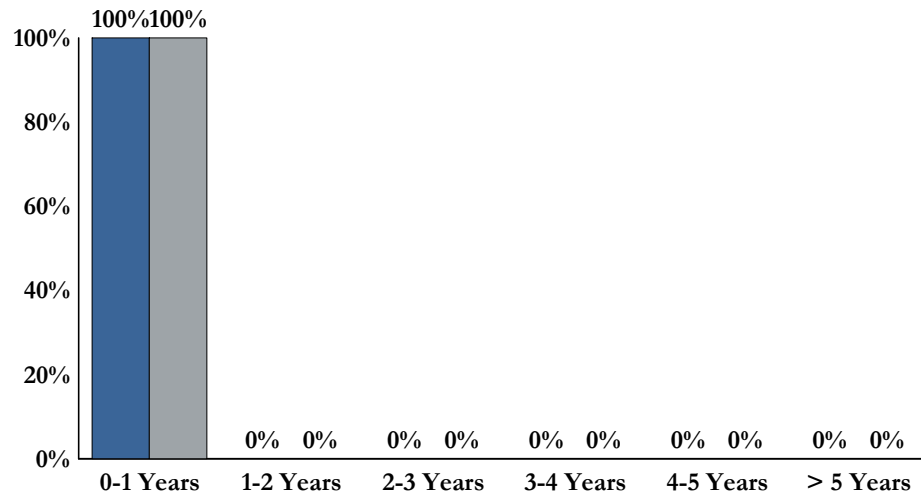


Duration Distribution

As of December 31, 2016

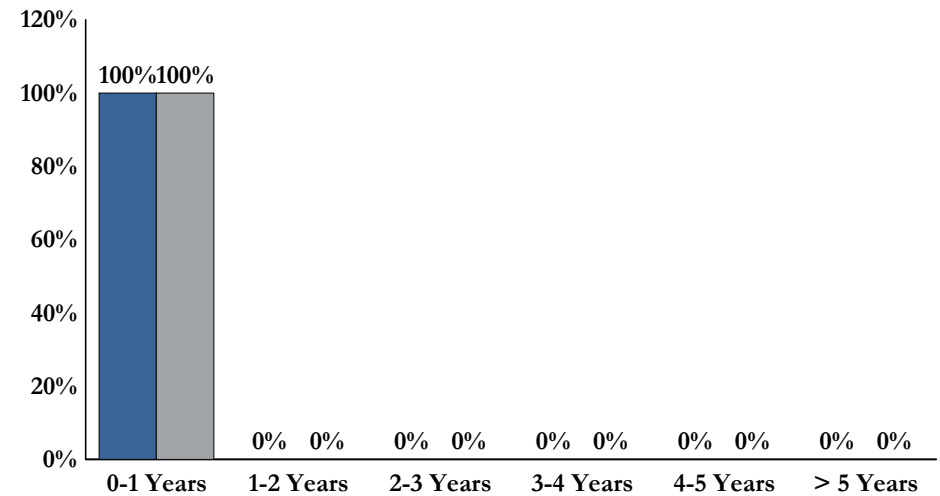
Portfolio / Benchmark	Effective Duration	0-1 YEARS	1-2 YEARS	2-3 YEARS	3-4 YEARS	4-5 YEARS	> 5 YEARS
LAKE COUNTY SD IMPACT FEE PORTFOLIO	0.12	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%
BofA ML 3 Month U.S. Treasury Bill Index	0.14	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Distribution by Effective Duration



LAKE COUNTY SD IMPACT FEE PORTFOLIO
BofA ML 3 Month U.S. Treasury Bill Index

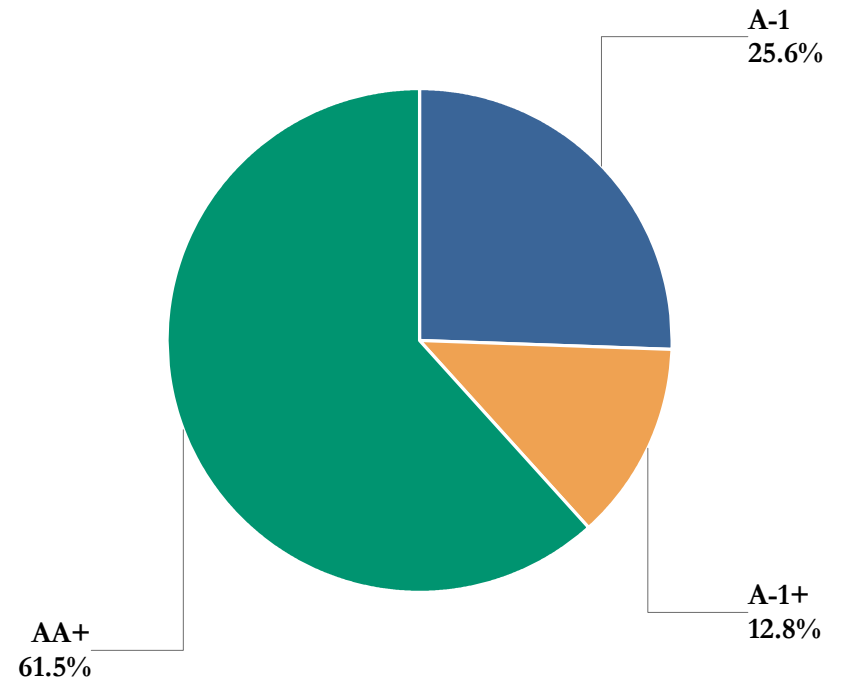
Contribution to Portfolio Duration



LAKE COUNTY SD IMPACT FEE PORTFOLIO
BofA ML 3 Month U.S. Treasury Bill Index

Credit Quality
As of December 31, 2016

S&P Rating	Market Value (\$)	% of Portfolio
AA+	\$12,000,960	61.6%
A-1	\$4,996,958	25.6%
A-1+	\$2,499,838	12.8%
Totals	\$19,497,755	100.0%



Detail may not add to total due to rounding.

Issuer Distribution*As of December 31, 2016*

Issuer	Market Value (\$)	% of Portfolio
UNITED STATES TREASURY	12,000,960	61.6%
TOYOTA MOTOR CORP	2,499,838	12.8%
MITSUBISHI UFJ FINANCIAL GROUP INC	2,499,813	12.8%
JP MORGAN CHASE & CO	2,497,145	12.8%
Grand Total:	19,497,755	100.0%

Sector/Issuer Distribution

As of December 31, 2016

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Commercial Paper			
JP MORGAN CHASE & CO	2,497,145	33.3%	12.8%
MITSUBISHI UFJ FINANCIAL GROUP INC	2,499,813	33.3%	12.8%
TOYOTA MOTOR CORP	2,499,838	33.3%	12.8%
Sector Total	7,496,795	100.0%	38.4%
U.S. Treasury			
UNITED STATES TREASURY	12,000,960	100.0%	61.6%
Sector Total	12,000,960	100.0%	61.6%
Portfolio Total	19,497,755	100.0%	100.0%

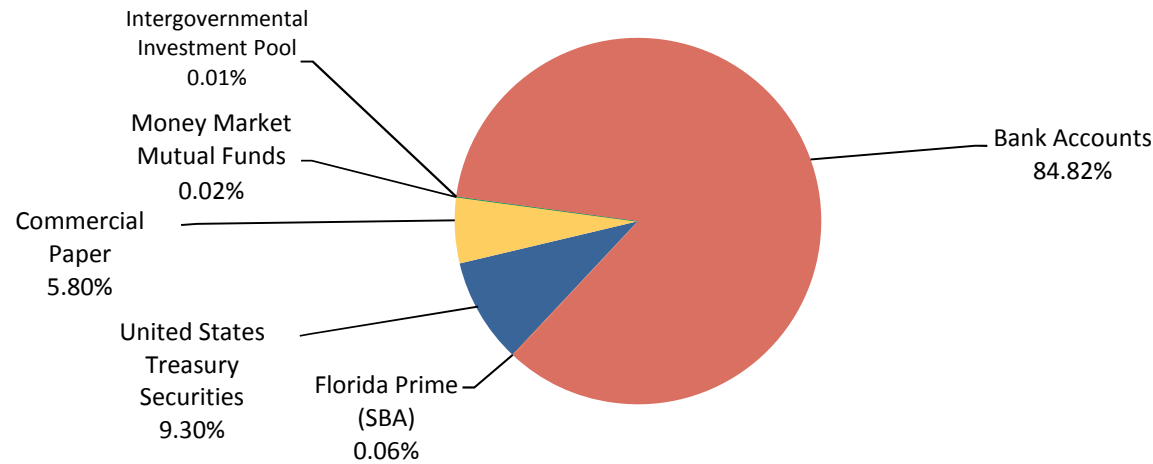
Quarterly Portfolio Transactions

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
INTEREST									
10/13/16	10/13/16	0	MONEY0002	MONEY MARKET FUND			25.78		
11/9/16	11/9/16	0	MONEY0002	MONEY MARKET FUND			29.21		
12/9/16	12/9/16	0	MONEY0002	MONEY MARKET FUND			28.14		
12/31/16	12/31/16	6,000,000	912828H29	US TREASURY NOTES	0.62%	12/31/16	18,750.00		
Total INTEREST		6,000,000					18,833.13		
MATURITY									
12/31/16	12/31/16	6,000,000	912828H29	US TREASURY NOTES	0.62%	12/31/16	6,000,000.00		0.00
Total MATURITY		6,000,000					6,000,000.00		0.00

Quarterly Portfolio Transactions

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
INTEREST	10/13/16	10/13/16	0.00	MONEY0002	MONEY MARKET FUND			25.78		
INTEREST	11/9/16	11/9/16	0.00	MONEY0002	MONEY MARKET FUND			29.21		
INTEREST	12/9/16	12/9/16	0.00	MONEY0002	MONEY MARKET FUND			28.14		
INTEREST	12/31/16	12/31/16	6,000,000.00	912828H29	US TREASURY NOTES	0.62%	12/31/16	18,750.00		
MATURITY	12/31/16	12/31/16	6,000,000.00	912828H29	US TREASURY NOTES	0.62%	12/31/16	6,000,000.00		0.00
TOTALS								6,018,833.13		0.00

Tab III



Security Type ¹	Amortized Cost (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
Florida Prime (SBA)	79,015.78	0.06%		25%	YES
United States Treasury Securities	12,020,491.41	9.30%		100%	YES
United States Government Agency Securities	-	0.00%		50%	YES
Federal Instrumentalities	-	0.00%	2	80%	YES
Mortgage-Backed Securities	-	0.00%	2,3	20%	YES
Certificates of Deposit or Savings Account	-	0.00%		25%	YES
Repurchase Agreements	-	0.00%		50%	YES
Commercial Paper	7,495,979.88	5.80%		35%	YES
Corporate Notes	-	0.00%		0%	YES
Bankers' Acceptances	-	0.00%		35%	YES
State and/or Local Government Debt	-	0.00%		20%	YES
Money Market Mutual Funds	21,157.58	0.02%		50%	YES
Intergovernmental Investment Pool	10,018.72	0.01%		25%	YES
Bank Accounts	109,668,064.68	84.82%		100%	YES

Notes:

1. End of month trade-date amortized cost of portfolio holdings, including accrued interest.

2. The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 80%. The combined total as of December 31, 2016 is .00%.

3. The Investment Policy does allow for Government and Federal Agency mortgage backed securities (MBS). Which is limited to GNMA, FHLMC, and FNMA mortgage backed securities. GNMA securities have the full faith and credit of the United States Treasury. As of September 6, 2008, FHLMC and FNMA have been under conservatorship with the United States Treasury. PFM has imposed an internal maximum allocation limit of 20% in MBS'. PFM will notify the School District prior to adding MBS' to the portfolio.

Individual Issuer Breakdown	Amortized Cost (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
Government National Mortgage Association (GNMA)	-	0.00%		25%	YES
Federal Farm Credit Bank (FFCB)	-	0.00%		40%	YES
Federal Home Loan Bank (FHLB)	-	0.00%		40%	YES
Federal National Mortgage Association (FNMA)	-	0.00%		40%	YES
Federal Home Loan Mortgage Corporation (FHLMC)	-	0.00%		40%	YES
Bank of Tokyo Mitsubishi, Inc. Commercial Paper	2,499,863.90	1.93%		10%	YES
JP Morgan Chase & Company Commercial Paper	2,496,239.58	1.93%		10%	YES
Toyota Motor Corporation Commercial Paper	2,499,876.40	1.93%		10%	YES
Bank Accounts	109,668,064.68	84.82%		100%	YES
Money Market Fund - Impact Fees	21,157.58	0.02%		25%	YES
Florida Education Investment Trust Fund	10,018.72	0.01%		25%	YES

Important Disclosures

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- Market values which 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 portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.
- MBS maturities are represented by expected average life.

Glossary

- **ACCRUED INTEREST:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.
- **AMORTIZED COST:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer term securities is amortized using the constant yield basis.
- **BANKERS' ACCEPTANCE:** A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the 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, 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 occurs on a non-business day (i.e. coupon payments and maturity proceeds), 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.