U.S. Treasury securities

Our United States government runs by issuing U.S. Treasury securities. Investors who purchase these securities are, in essence, loaning the U.S. government money to fund general operations and public projects. U.S. Treasury securities are considered to be the safest securities available to the investor today.

Benefits

U.S. Treasury securities offer investors investment vehicles with:

- **Safety** — U.S. Treasury securities are considered to be the safest of all securities because they are backed by the full faith and credit of the U.S. government. The federal government’s authority to tax, along with the fact that they can always issue new securities, guarantees both the timely payment of interest and the repayment of principal at maturity.

- **Liquidity** — There is a vast number of U.S. Treasury securities available today. Because there is such a large and active secondary market, these securities can be bought and sold easily.

- **Return** — U.S. Treasury securities offer investors attractive returns relative to their risk. These securities offer higher yields than traditional savings accounts.

- **State income tax exemption** — Interest payments from U.S. Treasury securities are exempt from state income taxes. For investors living in states with high income taxes, this increases their attractiveness on an after-tax basis when compared to other taxable bonds.

Types

- U.S. Treasury bills, notes and bonds are the most common types of U.S. Treasury securities. See the table on the following page for specific information about varying denominations, maturities and auction schedules.

- U.S. Treasury Separate Trading of Registered Interest and Principal Securities (STRIPS) are also popular investment vehicles offered by the U.S. Treasury. STRIPS are “zero-coupon” bonds — instead of being disbursed in regular payments, interest accretes over the life of the bond and is paid at maturity. See the table on the following page for more information, or ask your financial advisor for our report that provides further information including investment strategies with STRIPS.

- Treasury Inflation Protected Securities (TIPS) are the newest types of U.S. Treasury securities available to investors. With these securities, the principal and interest payments are protected against inflation, as the principal is indexed to changes in the Consumer Price Index (CPI).

Currently they are issued in five-, 10-, and 30-year maturities. However, the U.S. Treasury expects to issue other maturities over time. See the table on the following page for information about interest payments and denominations.

Trading

Treasury securities can be purchased on the primary market as new issues at the Treasury auction. Treasuries can also be purchased on the secondary market. The secondary market for Treasuries is the most liquid financial market in the world.

The most recently auctioned Treasury issues for each maturity are referred to as “on-the-run” or “current” issues. Issues auctioned prior to the current issues are referred to as “off-the-run,” which become less liquid as new issues come to the market.

A comparison of U.S. Treasury securities is illustrated on the following page.
### Comparison of U.S. Treasury securities

<table>
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<tr>
<th>Security</th>
<th>Denomination/minimum</th>
<th>Maturity range</th>
<th>Interest payment schedule</th>
<th>How they are traded?</th>
<th>Auction schedule*</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury bills</td>
<td>$100* $10,000 minimum</td>
<td>One day to one year</td>
<td>Face value at maturity</td>
<td>At a discount</td>
<td>Three- and six-month bills are auctioned every Monday. One-year bills are auctioned every three months.</td>
</tr>
<tr>
<td>U.S. Treasury notes</td>
<td>$100**/$1,000 Or $5,000 minimum (depending on maturity)</td>
<td>One to 10 years</td>
<td>Semi-annual</td>
<td>Market sets price at par, discount, or premium based on current interest rates.</td>
<td>Two-year notes are typically auctioned the third week of every month. The five-year and 10-year notes are auctioned every quarter.</td>
</tr>
<tr>
<td>U.S. Treasury bonds</td>
<td>$100**/$1,000</td>
<td>10 years and longer</td>
<td>Semi-annual</td>
<td>Market sets price at par, discount, or premium based on current interest rates.</td>
<td>30-year bonds are auctioned in February and August.</td>
</tr>
<tr>
<td>U.S. Treasury STRIPS</td>
<td>$100**/$1,000</td>
<td>Three months to 30 years</td>
<td>Face value at maturity</td>
<td>At a discount from the maturity value</td>
<td>N/A</td>
</tr>
<tr>
<td>TIPS</td>
<td>$100**/$1,000</td>
<td>10 years and 30 years (Other maturities expected to be issued by the treasury over time.)</td>
<td>Semi-annual</td>
<td>Market sets price at par, discount, or premium April, July, and October, based on current interest rates.</td>
<td>Auctions are held quarterly on January 15.</td>
</tr>
</tbody>
</table>

*  Auction schedule is changed if there is a holiday. From time to time, the U.S. Treasury makes changes to the frequency of the auctions and the types of securities issued.

**  New Issues