

RESOLUTION 2017 - 245

**A RESOLUTION OF THE COUNTY OF ST. JOHNS, FLORIDA  
AMENDING THE COUNTY INVESTMENT POLICY PURSUANT TO  
THE REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES, AS  
AMENDED; AND RESOLUTION NO. 2001-58.**

**WHEREAS**, the Board of County Commissioners of St. Johns County, Florida (the "Board"), adopted a written Investment Policy for surplus public funds, as provided in Section 218.415, Florida Statutes, as amended, through Resolution No. 2001-58 passed and adopted on March 27, 2001, and

**WHEREAS**, the Board enacted a list of permitted investments for surplus funds pursuant to Section 218.415, Florida Statutes, as amended, consistent with the Investment Policy through Ordinance Nos. 2001-26 and 2014-18, and

**WHEREAS**, Ordinance No. 2014-18 was repealed and replaced by Ordinance 2017-32, enacted July 18, 2017, and

**WHEREAS**, due to the changing economic climate and available investment options, the Board wishes to amend the county Investment Policy.

**NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF COUNTY  
COMMISSIONERS OF ST. JOHNS COUNTY:**

**Section 1.** The above recitals are incorporated into this resolution and are adopted as findings of fact.

**Section 2.** The Board of County Commissioners of St. Johns County, Florida adopts the Investment Policy revisions attached hereto as Exhibit A.

**Section 3.** To the extent that there are typographical or administrative errors or omissions that do not change the tone, tenor, or concept of this resolution, this resolution may be revised without subsequent approval of the Board of County Commissioners.

**PASSED AND ADOPTED** by the Board of County Commissioners of St. Johns County this 18th day of July, 2017.

ATTEST: Hunter S. Conrad, Clerk

By: Pam Halterman

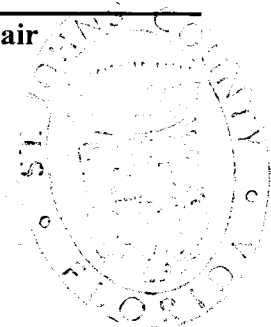
Deputy Clerk

**BOARD OF COUNTY COMMISSIONERS  
ST. JOHNS COUNTY, FLORIDA**

By: [Signature]

James K. Johns, Chair

RENDITION DATE 7/20/17



**St. Johns County  
BOARD OF COUNTY COMMISSIONERS  
INVESTMENT POLICY**

*Prepared by:*  
Hunter Conrad Cheryl Strickland  
Clerk of the Circuit Court and Comptroller

Approved: April 22, 2014 2017

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**ST. JOHNS COUNTY  
BOARD OF COUNTY COMMISSIONERS  
INVESTMENT POLICY**

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**I. PURPOSE**

The purpose of this Investment Policy (hereafter "policy") is to set forth the investment objectives and parameters for the management of public funds of St. Johns County Board of County Commissioners (hereinafter "Board"). ~~These policies are~~ This policy is designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

**II. SCOPE**

In accordance with Section 218.415, Florida Statutes, this ~~investment~~ policy applies to all financial assets, of the ~~B~~board with the exception of Pension Funds and funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds. Funds held by state agencies (e.g., Department of Revenue) are not subject to the provisions of this policy. Additionally, the policy does not include any financial assets under the direct control of any of the Constitutional Officers of St. Johns County, and this policy becomes applicable at such time as direct control of the funds passes to the Board.

**III. INVESTMENT OBJECTIVES**

Safety of Principal The foremost objective of this investment program is the safety of the principal of those funds within the portfolio. Investment transactions shall seek to be consistent with the other investment objectives, which are to keep capital losses at a minimum, whether they are from securities defaults or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Maintenance of Liquidity The portfolio shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. ~~Periodical~~ cash flow analyses will be completed in order to ensure that the portfolios ~~are~~ is positioned to provide sufficient liquidity.

Return on Investment The ~~investment~~ portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. However, return is attempted through active management where the Investment Advisor utilizes a total return strategy (which includes both realized and unrealized gains and losses in the portfolio). This total return strategy seeks to increase the value of the portfolio through reinvestment of income and capital gains. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Despite this, an Investment Advisor may trade to recognize a loss from time to time to achieve a perceived relative value based on its potential to enhance the total return of the portfolio.

#### IV. DELEGATION OF AUTHORITY

Responsibility for the investment program is vested with the Clerk of the Circuit Court ~~and Comptroller~~ (“Clerk”). Responsibility for the administration of the investment program is hereby delegated by the Clerk ~~of the Circuit Court~~ to the ~~Finance Director~~ Chief Financial Officer, who shall maintain an Investment Procedures and Internal Controls Manual based on this policy. The ~~Finance Director~~ Chief Financial Officer shall be responsible for monitoring internal controls, administrative controls and to regulate the activities of the Clerk’s staff involved with the investment program. The Authorized Staff is limited to the following positions:

- Clerk
- ~~Finance Director~~ Chief Financial Officer
- Comptroller’s Office Assistant ~~Finance Director~~
- Director of the Office of Management and Budget

#### V. STANDARDS OF PRUDENCE

The standard of prudence to be used by the Authorized Staff shall be the “Prudent Person” standard and shall be applied in the context of managing an overall portfolio. Authorized Staff 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 expectation are reported in a timely fashion to the Clerk and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. The “Prudent Person” rule states the following:

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 from the investment.

While the standard of prudence to be used by Authorized Staff who are officers or employees is the “Prudent Person” standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of “Prudent Expert”. The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the Investment Advisor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

#### VI. ETHICS AND CONFLICTS OF INTEREST

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. Also, employees involved in the investment process shall disclose to the Clerk and the Board any material financial interests in financial institutions that conduct business with the Board, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the Board’s portfolio.

## VII. INTERNAL CONTROLS AND INVESTMENT PROCEDURES

The ~~Finance Director~~ Chief Financial Officer shall establish a system of internal controls and operational procedures to protect the Board's assets and ensure proper accounting and reporting of the transactions related thereto. No person may engage in an investment transaction except as authorized under the terms of this policy. Independent auditors shall conduct a review of the system of internal controls as a normal part of the annual financial audit to the Board. Such internal controls shall include, but not limited to, the following:

### Separation of functions:

By separating the person who authorizes or performs the transaction from the person or persons who record or otherwise account for the transaction, a proper separation of duties is achieved.

### Custodial safekeeping:

Securities purchased from any bank or dealer, including appropriate collateral, shall be placed into a third party bank for custodial safekeeping.

### Clear delegation of authority to subordinate staff members:

Subordinate staff must have a clear understanding of their authority and responsibilities to avoid any improper actions. Clear delegation of authority also preserves the internal control structure that is built around the various staff positions and their respective responsibilities.

### Written confirmation of electronically initiated transactions for investments and wire transfers:

Due to the potential for error and improprieties arising from telephone or other electronically initiated transactions, all such transactions should be supported by written communications and approved by an individual other than the individual initiating said transaction. Repetitive wires do not require a secondary approval; however, all non-repetitive wires shall have secondary approval.

### Documentation of transactions and strategies:

All transactions and the strategies that were used to develop said transactions should be documented in writing and approved by the appropriate person.

## VIII. CONTINUING EDUCATION

The ~~Finance Director~~ Chief Financial Officer and appropriate Authorized Staff shall annually complete 8 hours of continuing education in subjects or courses of study related to investment practices and products.

## IX. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

Authorized Staff shall only purchase securities from financial institutions, which are qualified as public depositories by the Treasurer, or Chief Financial Officer of the State of Florida, "Primary Dealers" as designated by the Federal Reserve Bank of New York, or from direct issuers of commercial paper and bankers' acceptances.

The Board's Investment Advisor shall utilize and maintain its own list of approved primary and non-primary dealers.

Authorized Staff shall only enter into Repurchase agreements with “Primary Dealers” as designated by the Federal Reserve Bank of New York and financial institutions that are state qualified public depositories.

#### **X. MATURITY AND LIQUIDITY REQUIREMENTS**

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of current operating funds shall have maturities of no longer than twenty-four (24) months. Investments of bond reserves, construction funds, and other non-operating funds (“core funds”) shall have a term appropriate to the need for funds and in accordance with debt covenants. The purchase of investments for core funds with maturities longer than five and one-half (5.50) years requires the Clerks approval prior to purchase. The maturities of the underlying securities of a repurchase agreement will follow the requirements of the Master Repurchase Agreements.

#### **XI. RISK AND DIVERSIFICATION**

Assets held shall be diversified to control risks resulting from over concentration of assets in a specific maturity, issuer, instruments, dealer, or bank through which these instruments are bought and sold. The Clerk shall determine diversification strategies within the established guidelines.

#### **XII. MASTER REPURCHASE AGREEMENT**

The Clerk will require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions will adhere to requirements of the Master Repurchase Agreement.

#### **XIII. DERIVATIVES AND REVERSE REPURCHASE AGREEMENTS**

Investment in any derivative products or the use of reverse repurchase agreements is specifically prohibited by this ~~investment~~ policy, unless permitted in Section XV of this policy. A “derivative” is defined as a financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or indices or asset values.

#### **XIV. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS**

After the Investment Advisor or the ~~Finance Director~~ Chief Financial Officer has determined the approximate maturity date based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) reputable, qualified, and financially sound banks and/or dealers must be contacted and asked to provide bids on securities in questions. Bids will be held in confidence until the highest bid is determined and awarded.

However, on an exception basis, securities may be purchased utilizing the comparison to current market price method. Acceptable current market price providers include, but are not limited to:

- A. ~~Telerate Information System~~ Tradeweb,
- B. Bloomberg Information Systems,
- C. The Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing,

D. Daily market pricing provided by the Clerk's custody agents or their correspondent institutions.

Selection by comparison to a current market price, as indicated above, shall only be utilized when, in judgment of the investment advisor, the Clerk, or ~~Finance Director~~Chief Financial Officer, competitive bidding would inhibit the selection process.

Examples of when this method may be used include:

- A. When time constraints due to unusual circumstances preclude the use of the competitive bidding process.
- B. When no active market exists for the issue being traded due to the age or depth of the issue.
- C. When a security is unique to a single dealer, for example, a private placement.
- D. When the transaction involves new issues or issues in the "when issued" market.

Overnight sweep repurchase agreements will not be bid, but may be placed with the depository bank relating to the demand account for which the repurchase agreement was purchased.

#### **XV. AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION**

Investments should be made subject to the cash flow needs and such cash flows are subject to revisions as market conditions and the Board's needs change. However, when the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, Authorized Staff may sell the investment at the then-prevailing market price and place the proceeds into the proper account at the Board's custodian.

The following are the guidelines for investments and limits on security types, issuers, and maturities as established by the Board. The Clerk or the ~~Finance Director~~Chief Financial Officer shall have the option to further restrict investment percentages from time to time based on market conditions. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment, at the time of purchase. Investments not listed in this policy are prohibited.

**Permitted Investments**

<u>Sector</u>	<u>Sector Maximum (%)</u>	<u>Per Issuer Maximum (%)</u>	<u>Minimum Ratings Requirement<sup>1</sup></u>	<u>Maximum Maturity</u>
U.S. Treasury	100%	100%	N/A	5.50 Years (5.50 Years avg. life <sup>4</sup> for GNMA)
GNMA		40%		
Other U.S. Government Guaranteed (e.g. AID, GTC)		10%		
Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB*	80%	40% <sup>3</sup>	N/A	5.50 Years
Federal Agency/GSE other than those above		10%		
Supranationals where U.S. is a shareholder and voting member	25%	5%	Highest ST or Highest LT Rating Categories (A-1/P-1, AAA/Aaa, or equivalent)	5.50 Years
Corporates	50% <sup>2</sup>	5%	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3 or equivalent)	5.50 Years
Municipals	25%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)	5.50 Years
Agency Mortgage-Backed Securities (MBS)	25%	40% <sup>3</sup>	N/A	5.50 Years Avg. Life <sup>4</sup>
Asset-Backed Securities (ABS)	25%	5%	Highest ST or LT Rating (A-1+/P-1, AAA/Aaa, or equivalent)	5.50 Years Avg. Life <sup>4</sup>
Non-Negotiable Collateralized Bank Deposits or Savings Accounts	50%	25%	None, if fully collateralized.	2 Years
Commercial Paper (CP)	50% <sup>2</sup>	5%	Highest ST Rating Category (A-1/P-1, or equivalent)	270 Days
Bankers' Acceptances (BAs)	10% <sup>2</sup>	5%	Highest ST Rating Category (A-1/P-1, or equivalent)	180 Days
Repurchase Agreements (Repo or RP)	50%	25%	Counterparty (or if the counterparty is not rated by an NRSRO, then the counterparty's parent) must be rated in the Highest ST Rating Category (A-1/P-1, or equivalent) If the counterparty is a Federal Reserve Bank, no rating is required	1 Year
Money Market Funds (MMFs)	50%	25%	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A
Intergovernmental Pools (LGIPs)	50%	25%	Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP, (AAAm/AAAf, S1, or equivalent)	N/A
Florida Local Government Surplus Funds Trust Funds ("Florida Prime")	75%	N/A	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A
Notes:				
Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization ("NRSRO"), unless otherwise noted. ST=Short-term; LT=Long-term.				
Maximum allocation to all corporate and bank credit instruments is 50% combined.				
Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.				
The maturity limit for MBS and ABS is based on the expected average life at time of settlement, measured using Bloomberg or other industry standard methods.				
Federal National Mortgage Association (FNMA); Federal Home Loan Mortgage Corporation (FHLMC); Federal Home Loan Bank or its District banks (FHLB); Federal Farm Credit Bank (FFCB).				

- 1) U.S. Treasury & Government Guaranteed - U.S. Treasury obligations, and obligations the principal and interest of which are backed or guaranteed by the full faith and credit of the U.S. Government.
- 2) Federal Agency/GSE - Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. Federal agency, instrumentality or government-sponsored enterprise (GSE).
- 3) Supranationals – U.S. dollar denominated debt obligations of a multilateral organization of governments where U.S. is a shareholder and voting member.
- 4) Corporates – U.S. dollar denominated corporate notes, bonds or other debt obligations issued or guaranteed by a domestic or foreign corporation, financial institution, non-profit, or other entity.
- 5) Municipals – Obligations, including both taxable and tax-exempt, issued or guaranteed by any State, territory or possession of the United States, political subdivision, public corporation, authority, agency board, instrumentality or other unit of local government of any State or territory.
- 6) Agency Mortgage Backed Securities - Mortgage-backed securities (MBS), backed by residential, multi-family or commercial mortgages, that are issued or fully guaranteed as to principal and interest by a U.S. Federal agency or government sponsored enterprise, including but not limited to pass-throughs, collateralized mortgage obligations (CMOs) and REMICs.
- 7) Asset-Backed Securities - Asset-backed securities (ABS) whose underlying collateral consists of loans, leases or receivables, including but not limited to auto loans/leases, credit card receivables, student loans, equipment loans/leases, or home-equity loans.
- 8) Non-Negotiable Certificate of Deposit and Savings Accounts - Non-negotiable interest bearing time certificates of deposit, or savings accounts in banks organized under the laws of this state or in national banks organized under the laws of the United States and doing business in this state, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes.
- 9) Commercial Paper – U.S. dollar denominated commercial paper issued or guaranteed by a domestic or foreign corporation, company, financial institution, trust or other entity, only unsecured debt permitted.
- 10) Bankers' Acceptances - Bankers' acceptances issued, drawn on, or guaranteed by a U.S. bank or U.S. branch of a foreign bank.
- 11) Repurchase Agreements - Repurchase agreements (Repo or RP) that meet the following requirements:
  - a. Must be governed by a written SIFMA Master Repurchase Agreement which specifies securities eligible for purchase and resale, and which provides the unconditional right to liquidate the underlying securities should the Counterparty default or fail to provide full timely repayment.
  - b. Counterparty must be a Federal Reserve Bank, a Primary Dealer as designated by the Federal Reserve Bank of New York, or a nationally chartered commercial bank.
  - c. Securities underlying repurchase agreements must be delivered to a third party custodian under a written custodial agreement and may be of deliverable or tri-party form. Securities must be held in the Board's custodial account or in a separate account in the name of the Board.
  - d. Acceptable underlying securities include only securities that are direct obligations of, or that are fully guaranteed by, the United States or any agency of the United States, or U.S. Agency-backed mortgage related securities.
  - e. Underlying securities must have an aggregate current market value of at least 102% (or 100% if the counterparty is a Federal Reserve Bank) of the purchase price plus current accrued price differential at the close of each business day.

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f. Final term of the agreement must be 1 year or less.

12) Money Market Funds - Shares in open-end and no-load money market mutual funds, provided such funds are registered under the Investment Company Act of 1940 and operate in accordance with Rule 2a-7.

A thorough investigation of any money market fund is required prior to investing. Attachment B is a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool/fund. A current prospectus must be obtained.

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13) Local Government Investment Pools – State, local government or privately-sponsored investment pools that are authorized pursuant to state law.

A thorough investigation of any intergovernmental investment pool is required prior to investing. Attachment B is a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool/fund. A current prospectus must be obtained.

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14) The Florida Local Government Surplus Funds Trust Funds (“Florida Prime”) A thorough investigation of the Florida Prime is required prior to investing. Attachment B is a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool/fund. A current prospectus or portfolio report must be obtained.

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### General Investment and Portfolio Limits

#### 1. General investment limitations:

- a. Investments must be denominated in U.S. dollars and issued for legal sale in U.S. markets.
- b. Minimum ratings are based on the highest rating by any one Nationally Recognized Statistical Ratings Organization (“NRSRO”), unless otherwise specified.
- c. All limits and rating requirements apply at time of purchase.
- d. Should a security fall below the minimum credit rating requirement for purchase, the Investment Advisor will notify the Finance Director/Chief Financial Officer.
- e. The maximum maturity (or average life for MBS/ABS) of any investment is 5.50 years. Maturity and average life are measured from settlement date. The final maturity date can be based on any mandatory call, put, pre-refunding date, or other mandatory redemption date.

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#### 2. General portfolio limitations:

- a. The maximum effective duration of the aggregate portfolio is 3 years.
- b. Maximum exposure to issuers in any non-U.S. country cannot exceed 10 percent per country.

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#### 3. Investment in the following are permitted, provided they meet all other policy requirements:

- a. Callable, step-up callable, called, pre-refunded, putable and extendable securities, as long as the effective final maturity meets the maturity limits for the sector
- b. Variable-rate and floating-rate securities
- c. Subordinated, secured and covered debt, if it meets the ratings requirements for the sector
- d. Zero coupon issues and strips, excluding agency mortgage-backed Interest-only structures (I/Os)
- e. Treasury TIPS

#### 4. The following are NOT PERMITTED investments, unless specifically authorized by statute and with prior approval of the governing body:

- a. Trading for speculation

- b. Derivatives (other than callables and traditional floating or variable-rate instruments)
- c. Mortgage-backed interest-only structures (I/Os)
- d. Inverse or leveraged floating-rate and variable-rate instruments
- e. Currency, equity, index and event-linked notes (e.g. range notes), or other structures that could return less than par at maturity
- f. Private placements and direct loans, except as may be legally permitted by Rule 144A or commercial paper issued under a 4(2) exemption from registration
- g. Convertible, high yield, and non-U.S. dollar denominated debt
- h. Short sales
- i. Use of leverage
- j. Futures and options
- k. Mutual funds
- l. Equities, commodities, currencies and hard assets

Security Type	Minimum Rating Requirement	Maturity Limits	Maximum Allocation Limit	Maximum Issuer Limit
Florida PRIME	AAAm	N/A	75%	N/A
United States Government Securities	N/A	5 Years	100%	N/A
United States Government Agencies (full faith and credit of the United States Government)	N/A	5 Years	50%	25%
Federal Instrumentalities*	N/A	5 Years	80%	50%
Supranational Agencies	triple "AAA" category by any two NRSROs	5 Years	25%	5%
Mortgage-Backed Securities (MBS)*	N/A	5 Years	20%	15%
Non-Negotiable Interest Bearing Time Certificates of Deposit or Savings Accounts	N/A	1 Year	50%	25%
Repurchase Agreements	N/A	60 Days	50%	25%
Commercial Paper	P-1/A-1	270 Days	25%	10%
Corporate Notes	single "A" category by any two NRSROs	5 Years	25%	5%
Bankers' Acceptances	P-1/A-1	180 Days	25%	10%
State and/or Local Government Taxable and/or Tax Exempt Debt	Single "A" category by two NRSROs	5 Years	20%	10%
Registered Investment Companies (Money Market Mutual Funds)	AAAm	N/A	50%	25%
Intergovernmental	AAA	N/A	25%	N/A

Investment Pool				
<p><del>*The combined total of available funds invested in Federal Instrumentalities and Mortgage Backed Securities cannot be more than 80%.</del></p> <p><del>A. The State Board of Administration's Local Government Surplus Funds Trust Fund ("Florida PRIME Fund")</del></p> <p><del>1. Purchase Authorization</del></p> <p><del>Authorized Staff may invest in the Florida PRIME Fund</del></p> <p><del>2. Portfolio Composition</del></p> <p><del>A maximum of 75% of available funds may be invested in the Florida PRIME.</del></p> <p><del>Rating Requirements</del>  <del>The Florida PRIME shall be rated "AAAm" by Standard &amp; Poor's or the equivalent by another Nationally Recognized Statistical Rating Organizations (NRSROs).</del></p> <p><del>Due Diligence Requirements</del>  <del>A thorough investigation of the Florida PRIME is required prior to investing, and on a continual basis. Attachment B is a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool.</del></p> <p><del>B. United States Government Securities</del></p> <p><del>1. Purchase Authorization</del></p> <p><del>Authorized Staff may invest in negotiable direct obligations, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. Such securities will include, but not be limited to the following:</del></p> <p><del>Cash Management Bills</del>  <del>Treasury Securities—State and Local Government Series (SLGS)</del>  <del>Treasury Bills</del>  <del>Treasury Notes</del>  <del>Treasury Bonds</del>  <del>Treasury Strips</del></p> <p><del>2. Portfolio Composition</del></p> <p><del>A maximum of 100% of available funds may be invested in the United States Government Securities.</del></p> <p><del>3. Maturity Limitations</del></p> <p><del>The length to maturity of any direct investment in the United States Government Securities is five (5) years from the date of purchase.</del></p> <p><del>C. United States Government Agencies (full faith and credit of the United States Government)</del></p> <p><del>1. Purchase Authorization</del></p>				

~~Authorized Staff may invest in bonds, debentures or notes issued or guaranteed by the United States Government's agencies, provided such obligations are backed by the full faith and credit of the United States Government. Such securities will include, but not be limited to the following:~~

~~United States Export—Import Bank~~

~~—— Direct obligations or fully guaranteed certificates of beneficial ownership~~

~~Farmer Home Administration~~

~~—— Certificates of beneficial ownership~~

~~Federal Financing Bank~~

~~—— Discount notes, notes and bonds~~

~~Federal Housing Administration Debentures~~

~~General Services Administration~~

~~United States Maritime Administration Guaranteed~~

~~—— Title XI Financing~~

~~New Communities Debentures~~

~~—— United States Government guaranteed debentures~~

~~United States Public Housing Notes and Bonds~~

~~—— United States Government guaranteed public housing notes and bonds~~

~~United States Department of Housing and Urban Development~~

~~—— Project notes and local authority bonds~~

~~2.—— Portfolio Composition~~

~~A maximum of 50% of available funds may be invested in United States Government agencies.~~

~~3.—— Limits on Individual Issuers~~

~~A maximum of 25% of available funds may be invested in individual United States Government agencies.~~

~~4.—— Maturity Limitations~~

~~The length to maturity for an investment in any United States Government agency security is five (5) years from the date of purchase.~~

~~D.—— Federal Instrumentalities (United States Government sponsored agencies which are non full faith and credit).~~

~~1.—— Purchase Authorization~~

~~Authorized Staff may invest in the following bonds, debentures or notes issued or guaranteed by United States Government Sponsored Enterprises (Federal Instrumentalities which are non full faith and credit agencies) include but not limited to the following:~~

~~Federal Farm Credit Bank (FFCB)~~

~~Federal Home Loan Bank or its Clerk banks (FHLB)~~

~~Federal National Mortgage Association (FNMA)~~

~~Federal Home Loan Mortgage Corporation (Freddie Macs) including Federal Home Loan Mortgage Corporation participation certificates~~

~~Tennessee Valley Authority~~

~~2.—— Portfolio Composition~~

~~A maximum of 80% of available funds may be invested in Federal Instrumentalities. The combined total of available funds invested in Federal Instrumentalities and Mortgage Backed Securities cannot be more than 80%.~~

~~3.—— Limits on Individual Issuers~~

~~A maximum of 50% of available funds may be invested in any one issuer.~~

~~4.—— Maturity Limitations~~

~~The length to maturity for an investment in any Federal Instrumentality is five (5) years from the date of purchase.~~

~~E. — Supranational Agencies~~

~~1. — Purchase Authorization~~

~~Authorized Staff may invest in US Dollar (USD) denominated obligations of a multilateral organization of governments. Purchase authorization includes, but is not limited to, obligations of the following multilateral organizations:~~

~~International Bank for Reconstruction and Development (IBRD);  
International Finance Corporation (IFC);  
European Bank for Reconstruction and Development (EBRD);  
Inter American Development Bank (IADB);  
Asian Development Bank (ADB)  
African Development Bank (AfDB)~~

~~2. — Portfolio Composition~~

~~A maximum of 25% of available funds may be invested in Supranational Agencies.~~

~~3. — Limits on Individual Issuers~~

~~A maximum of 5% of available funds may be invested in any one issuer.~~

~~4. — Rating Requirements~~

~~The Supranational Agencies shall be rated triple “AAA” by any two NRSROs.~~

~~5. — Maturity Limitations~~

~~The length to maturity for an investment in any Supranational Agency is five (5) years from the date of purchase.~~

~~F. — Mortgage Backed Securities (MBS)~~

~~1. — Purchase Authorization~~

~~Authorized Staff may invest in mortgage backed securities (MBS) which are based on mortgages that are guaranteed by a government agency or GSE for payment of principal and a guarantee of timely payment.~~

~~2. — Portfolio Composition~~

~~A maximum of 20% of available funds may be invested in MBS. The combined total of available funds invested in Federal Instrumentalities and Mortgage Backed Securities cannot be more than 80%.~~

~~3. Limits of Individual Issuers~~

~~A maximum of 15% of available funds may be invested with any one issuer.~~

~~4. Maturity Limitations~~

~~A maximum length to maturity for an investment in any MBS is five (5) years from the date of purchase.~~

~~The maturity of mortgage securities shall be considered the date corresponding to its average life. This date reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security's description.~~

~~G. Non Negotiable Interest Bearing Time Certificates of Deposit or Savings Account~~

~~1. Purchase Authorization~~

~~Authorized Staff may invest in non negotiable interest bearing time certificates of deposit or savings accounts in banks organized under the laws of this state and/or in national banks organized under the laws of the United States and doing business and situated in this state, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes.~~

~~2. Portfolio Composition~~

~~A maximum of 50% of available funds may be invested in non negotiable interest bearing time certificates of deposit or savings accounts.~~

~~3. Limits on Individual Issuers~~

~~A maximum of 25% of available funds may be deposited with any one issuer.~~

~~Maturity Limitations~~

~~The maximum maturity on any certificate of deposit shall be no greater than one (1) year from the date of purchase.~~

~~H. Repurchase Agreements~~

~~1. Purchase Authorization~~

~~a. Authorized Staff may invest in repurchase agreements comprised of only those investments based on the requirements set forth by the Clerk's Master Repurchase Agreement. All firms with whom the Clerk enters into repurchase agreements will have in place an executed Master Repurchase Agreement with the Clerk.~~

~~b. A third party custodian shall hold collateral for all repurchase agreements with a term longer than one (1) business day.~~

~~c. Securities authorized for collateral are negotiable direct obligations of the United States Government and Federal Instrumentalities with maturities under five (5) years and must have a mark to market value at a minimum of 102 percent during the term of the repurchase agreement. Immaterial~~

~~short term deviations from 102 percent requirement are permissible only upon the approval of the Authorized Staff.~~

~~2. Portfolio Composition~~

~~A maximum of 50% of available funds may be invested in repurchase agreements with the exception of one (1) business day agreements and overnight sweep agreements.~~

~~3. Limits on Individual Issuers~~

~~A maximum of 25% of available funds may be invested with any one institution with the exception of one (1) business day agreements and overnight sweep agreements.~~

~~4. Maturity Limitations~~

~~The maximum length to maturity of any repurchase agreement is 60 days from the date of purchase.~~

~~I. Commercial Paper~~

~~1. Purchase Authorization~~

~~Authorized Staff may invest in commercial paper of any United States company that is rated, at the time of purchase, "Prime 1" by Moody's and "A 1" by Standard & Poor's (prime commercial paper). If backed by a letter of credit (LOC), the long term debt of the LOC provider must be rated at a minimum single "A" category or better by any two (2) NRSROs.~~

~~2. Portfolio Composition~~

~~A maximum of 25% of available funds may be directly invested in prime commercial paper.~~

~~3. Limits on Individual Issuers~~

~~A maximum of 10% of available funds may be invested with any one issuer.~~

~~4. Maturity Limitations~~

~~The maximum length to maturity for prime commercial paper shall be 270 days from the date of purchase.~~

~~J. — Corporate Notes~~

~~1. — Purchase Authorization~~

~~Authorized Staff may invest in corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a long term debt rating, at the time of purchase, at a minimum single “A” category by any two (2) NRSROs.~~

~~2. — Portfolio Composition~~

~~A maximum of 25% of available funds may be directly invested in corporate notes.~~

~~3. — Limits on Individual Issuers~~

~~A maximum of 5% of available funds may be invested with any one issuer.~~

~~4. — Maturity Limitations~~

~~The maximum length to maturity for corporate notes shall be five (5) years from the date of purchase.~~

~~K. — Bankers’ Acceptances~~

~~1. — Purchase Authorization~~

~~Authorized Staff may invest in bankers’ acceptances which are issued by a domestic bank which has at the time of purchase, an unsecured, uninsured and unguaranteed obligation rating of at least “Prime 1” by Moody’s or “A 1” by Standard & Poor’s.~~

~~2. — Portfolio Composition~~

~~A maximum of 25% of available funds may be directly invested in bankers’ acceptances.~~

~~3. — Limits on Individual Issuers~~

~~A maximum of 10% of available funds may be invested with any one issuer.~~

~~4. — Maturity Limitations~~

~~The maximum length to maturity for bankers’ acceptances shall be 180 days from the date of purchase.~~

~~L. — State and/or Local Government Taxable and/or Tax Exempt Debt~~

~~1. — Purchase Authorization~~

~~Authorized Staff may invest in state and/or local government taxable and/or tax exempt debt, general obligation and/or revenue bonds, rated, at the time of purchase, at a minimum single “A” category or better by any two (2) NRSROs, or rated at least “VMIG2” by Moody’s or “A 2” by Standard & Poor’s for short term debt.~~

~~2. — Portfolio Composition~~

~~A maximum of 20% of available funds may be invested in taxable and tax exempt debts.~~

~~3. Limits on Individual Issuers~~

~~A maximum of 10% of available funds may be invested with any one issuer.~~

~~4. Maturity Limitations~~

~~A maximum length to maturity for an investment in any state or local government debt security is five (5) years from the date of purchase.~~

~~M. Registered Investment Companies (Money Market Mutual Funds)~~

~~1. Purchase Authorization~~

~~Authorized Staff may invest in shares in open end and no load money market funds provided such funds are registered under the Federal Investment Company Act of 1940 and operate in accordance with 17 C.F.R. § 270.2a-7. In addition, the share value of the money market funds must equal to \$1.00.~~

~~2. Portfolio Composition~~

~~A maximum of 50% of available funds may be invested in money market funds.~~

~~3. Limits of Individual Issuers~~

~~A maximum of 25% of available funds may be invested with any one money market fund.~~

~~4. Rating Requirements~~

~~The money market funds shall be rated “AAAm” by Standard & Poor’s, or the equivalent by another NRSRO.~~

~~5. Due Diligence Requirements~~

~~A thorough review of any money market fund is required prior to investing, and on a continual basis. Attachment B is a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool.~~

~~N. Intergovernmental Investment Pool~~

~~1. Purchase Authorization~~

~~Authorized Staff may invest in intergovernmental investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in s. 163.01, F.S.~~

~~2. Portfolio Composition~~

~~A maximum of 25% of available funds may be invested in intergovernmental investment pools.~~

~~3. Rating Requirements~~

~~The money market funds shall be rated "AAA" by Standard & Poor's, or the equivalent by another NRSRO.~~

~~4. Due Diligence Requirements~~

~~A thorough review of any investment pool/fund is required prior to investing, and on a continual basis. Attachment B is a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool.~~

**XVI. PERFORMANCE MEASUREMENTS**

In order to assist in the evaluation of the portfolio's performance, the Clerk will use performance benchmarks. The use of benchmarks will allow the Clerk to measure its returns against other investors in the same markets.

- A. Investment performance of funds designated as short-term funds and other funds that must maintain a high degree of liquidity will be compared to the return of the S&P Rated GIP Index Government 30-Day Gross of Fees Yield. Investments of current operating funds shall have maturities of no longer than twenty-four (24) months.
- B. Investment performance of funds designated as core funds and other non-operating funds that have a longer-term investment horizon will be compared to the [BofA](#) Merrill Lynch 1-3 Year U.S. Treasury Note Index or the [BofA](#) Merrill Lynch 1-5 Year U.S. Treasury/Agency Note Index. The portfolios' total rate of returns will be compared to these benchmarks. The appropriate index will have a duration and asset mix that approximates the portfolios and will be utilized as a benchmark to be compared to the portfolios' total rate of return. Investments of bond reserves, construction funds, and other non-operating funds ("core funds") shall have a term appropriate to the need for funds and in accordance with debt covenants, but in no event shall exceed five [and one-half \(5.50\)](#) years.

**XVII. REPORTING**

The ~~Finance Director~~[Chief Financial Officer](#) and/or Investment Advisor shall provide the Clerk with quarterly investment reports. Schedules in the quarterly report should include the following:

- A. A listing of individual securities held at the end of the reporting period
- B. Percentage of available funds represented by each investment type
- C. Coupon, discount or ~~earning rate~~ [of return](#)
- D. Average life or duration and final maturity of all investments
- E. Par value, and market value

On an annual basis, the Clerk or designee shall prepare and submit to the Board a written report on all invested funds. The annual report shall provide all, but not limited to, the following: a complete list of all

invested funds, name or type of security in which the funds are invested, the amount invested, the maturity date, earned income, the book value, the market value and the yield on each investment.

The annual report will show performance on both a book value and total rate of return basis and will compare the results to the above-stated performance benchmarks. All investments shall be reported at fair value per GASB standards. Investment reports shall be available to the public.

#### **XVIII. THIRD-PARTY CUSTODIAL AGREEMENTS**

All securities, with the exception of certificates of deposits, shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by; the Board should be properly designated as an asset of the Board. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Section 658.12, Florida Statutes, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida. Certificates of deposits will be placed in the provider's safekeeping department for the term of the deposit.

The Clerk will execute on behalf of the Board, third party custodial agreement(s) with its bank(s) and depository institution(s). Such agreements may include letters of authority from the Clerk, details as to the responsibilities of each party, method of notification of security purchases, sales, delivery, procedures related to repurchase agreements and wire transfers, safekeeping and transaction costs, procedures in case of wire failure or other unforeseen mishaps and describing the liability of each party.

The custodian shall accept transaction instructions only from those persons who have been duly authorized by the Clerk and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping, shall be permitted unless by such a duly authorized person.

The custodian shall provide the Clerk with safekeeping receipts that provide detail information on the securities held by the custodian. Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

**XIX. INVESTMENT POLICY ADOPTION**

The ~~investment~~ policy shall be adopted by the Board. The Clerk shall review the policy annually and, if necessary, present modifications to the Board for approval.

Duly adopted **this 22<sup>nd</sup> day of April 2014.**

**BOARD OF COUNTY COMMISSIONERS  
St. JOHNS COUNTY, FLORIDA**

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**Attachment A**  
**Glossary of Cash and Investment Management Terms**

The following is a glossary of key investing terms, many of which appear in the St. Johns County Board of County Commissioners' investment policy. This glossary clarifies the meaning of investment terms generally used in cash and investment management. This glossary has been adapted from the GFOA Sample Investment Policy and the Association of Public Treasurers of the United States and Canada's Model Investment Policy.

**Accrued Interest.** Interest earned but which has not yet been paid or received.

**Agency.** See "Federal Agency Securities."

**Ask Price.** Price at which a broker/dealer offers to sell a security to an investor. Also known as "offered price."

**Asset Backed Securities (ABS).** A fixed-income security backed by notes or receivables against assets other than real estate. Generally issued by special purpose companies that "own" the assets and issue the ABS. Examples include securities backed by auto loans, credit card receivables, home equity loans, manufactured housing loans, farm equipment loans, and aircraft leases.

**Average Life.** The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

**Bankers' Acceptance (BA's).** A draft or bill of exchange drawn upon and accepted by a bank. Frequently used to finance shipping of international goods. Used as a short-term credit instrument, bankers' acceptances are traded at a discount from face value as a money market instrument in the secondary market on the basis of the credit quality of the guaranteeing bank.

**Basis Point.** One hundredth of one percent, or 0.01%. Thus 1% equals 100 basis points.

**Bearer Security.** A security whose ownership is determined by the holder of the physical security. Typically, there is no registration on the issuer's books. Title to bearer securities is transferred by delivery of the physical security or certificate. Also known as "physical securities."

**Benchmark Bills:** In November 1999, FNMA introduced its Benchmark Bills program, a short-term debt securities issuance program to supplement its existing discount note program. The program includes a schedule of larger, weekly issues in three- and six-month maturities and biweekly issues in one-year for Benchmark Bills. Each issue is brought to market via a Dutch (single price) auction. FNMA conducts a weekly auction for each Benchmark Bill maturity and accepts both competitive and non-competitive bids through a web based auction system. This program is in addition to the variety of other discount note maturities, with rates posted on a daily basis, which FNMA offers. FNMA's Benchmark Bills are unsecured general obligations that are issued in book-entry form through the Federal Reserve Banks. There are no periodic payments of interest on Benchmark Bills, which are sold at a discount from the principal amount and payable at par at maturity. Issues under the Benchmark program constitute the same credit standing as other FNMA discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

**Benchmark Notes/Bonds:** Benchmark Notes and Bonds are a series of FNMA "bullet" maturities (non-callable) issued according to a pre-announced calendar. Under its Benchmark Notes/Bonds program, 2, 3, 5, 10, and 30-year maturities are issued each quarter. Each Benchmark Notes new issue has a minimum size of \$4 billion, 30-year new issues having a minimum size of \$1 billion, with re-openings based on investor demand to further enhance liquidity. The amount of non-callable issuance has allowed FNMA to build a yield curve in Benchmark Notes and Bonds in maturities ranging from 2 to 30 years. The liquidity emanating from these large size issues has facilitated favorable financing opportunities through the development of a liquid overnight and term repo market. Issues under the Benchmark program constitute the same credit standing as other FNMA issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

**Benchmark.** A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance, and duration of the actual portfolio's investments.

**Bid Price.** Price at which a broker/dealer offers to purchase a security from an investor.

**Bond.** Financial obligation for which the issuer promises to pay the bondholder (the purchaser or owner of the bond) a specified stream of future cash-flows, including periodic interest payments and a principal repayment.

**Book Entry Securities.** Securities that are recorded in a customer's account electronically through one of the financial markets electronic delivery and custody systems, such as the Fed Securities wire, DTC, and PTC

(as opposed to bearer or physical securities). The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors' concerns about the certificates themselves. The vast majority of securities are now book entry securities.

**Book Value.** The value at which a debt security is reflected on the holder's records at any point in time. Book value is also called "amortized cost" as it represents the original cost of an investment adjusted for amortization of premium or accretion of discount. Also called "carrying value." Book value can vary over time as an investment approaches maturity and differs from "market value" in that it is not affected by changes in market interest rates.

**Broker/Dealer.** A person or firm transacting securities business with customers. A "broker" acts as an agent between buyers and sellers, and receives a commission for these services. A "dealer" buys and sells financial assets from its own portfolio. A dealer takes risk by owning inventory of securities, whereas a broker merely matches up buyers and sellers. See also "Primary Dealer."

**Bullet Notes/Bonds.** Notes or bonds that have a single maturity date and are non-callable.

**Call Date.** Date at which a call option may be or is exercised.

**Call Option.** The right, but not the obligation, of an issuer of a security to redeem a security at a specified value and at a specified date or dates prior to its stated maturity date. Most fixed-income calls are a par, but can be at any previously established price. Securities issued with a call provision typically carry a higher yield than similar securities issued without a call feature. There are three primary types of call options (1) European - one-time calls, (2) Bermudan - periodically on a predetermined schedule (quarterly, semi-annual, annual), and (3) American - continuously callable at any time on or after the call date. There is usually a notice period of at least 5 business days prior to a call date.

**Callable Bonds/Notes.** Securities which contain an imbedded call option giving the issuer the right to redeem the securities prior to maturity at a predetermined price and time.

**Certificate of Deposit (CD).** Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity). Can be as long as 10 years to maturity, but most CDs purchased by public agencies are one year and under.

**Collateral.** Investment securities or other property that a borrower pledges to secure repayment of a loan, secure deposits of public monies, or provide security for a repurchase agreement.

**Collateralization.** Process by which a borrower pledges securities, property, or other deposits for securing the repayment of a loan and/or security.

**Collateralized Mortgage Obligation (CMO).** A security that pools together mortgages and separates them into short, medium, and long-term positions (called tranches). Tranches are set up to pay different rates of interest depending upon their maturity. Interest payments are usually paid monthly. In "plain vanilla" CMOs, principal is

not paid on a tranche until all shorter tranches have been paid off. This system provides interest and principal in a more predictable manner. A single pool of mortgages can be carved up into numerous tranches each with its own payment and risk characteristics.

**Commercial Paper.** Short term unsecured promissory note issued by a company or financial institution. Issued at a discount and matures for par or face value. Usually a maximum maturity of 270 days and given a short-term debt rating by one or more NRSROs.

**Convexity.** A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

**Corporate Note.** A debt instrument issued by a corporation with a maturity of greater than one year and less than ten years.

**Counterparty.** The other party in a two party financial transaction. "Counterparty risk" refers to the risk that the other party to a transaction will fail in its related obligations. For example, the bank or broker/dealer in a repurchase agreement.

**Coupon Rate.** Annual rate of interest on a debt security, expressed as a percentage of the bond's face value.

**Current Yield.** Annual rate of return on a bond based on its price. Calculated as (coupon rate / price), but does not accurately reflect a bond's true yield level.

**Custody.** Safekeeping services offered by a bank, financial institution, or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement, and market values.

**Dealer.** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own account.

**Delivery Versus Payment (DVP).** Settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Fed Securities Wire system and DTC, are done DVP as a protection for both the buyer and seller of securities.

**Depository Trust Company (DTC).** A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs, and BAs clear through DTC.

**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). For hedging purposes, common derivatives are options, futures, interest rate swaps, and swaptions.

**Derivative Security.** Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

**Designated Bond.** FFCB's regularly issued, liquid, non-callable securities that generally have a 2 or 3 year original maturity. New issues of Designated Bonds are \$1 billion or larger. Re-openings of existing Designated Bond issues are generally a minimum of \$100 million. Designated Bonds are offered through a syndicate of two to six dealers. Twice each month the Funding Corporation announces its intention to issue a new Designated Bond, reopen an existing issue, or to not issue or reopen a Designated Bond. Issues under the Designated Bond

program constitute the same credit standing as other FFCB issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

**Discount Notes.** Unsecured general obligations issued by Federal Agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year. Very large primary (new issue) and secondary markets exist.

**Discount Rate.** Rate charged by the system of Federal Reserve Banks on overnight loans to member banks. Changes to this rate are administered by the Federal Reserve and closely mirror changes to the "fed funds rate."

**Discount Securities.** Non-interest bearing money market instruments that are issued at discount and redeemed at maturity for full face value. Examples include: U.S. Treasury Bills, Federal Agency Discount Notes, Bankers' Acceptances, and Commercial Paper.

**Discount.** The amount by which a bond or other financial instrument sells below its face value. See also "Premium."

**Diversification.** Dividing investment funds among a variety of security types, maturities, industries, and issuers offering potentially independent returns.

**Dollar Price.** A bond's cost expressed as a percentage of its face value. For example, a bond quoted at a dollar price of 95 ½, would have a principal cost of \$955 per \$1,000 of face value.

**Duff & Phelps.** One of several NRSROs that provide credit ratings on corporate and bank debt issues.

**Duration.** The weighted average maturity of a security's or portfolio's cash-flows, where the present values of the cash-flows serve as the weights. The greater the duration of a security/portfolio, the greater its percentage price volatility with respect to changes in interest rates. Used as a measure of risk and a key tool for managing a portfolio versus a benchmark and for hedging risk. There are also different kinds of duration used for different purposes (e.g. MacAuley Duration, Modified Duration).

**Fannie Mae.** See "Federal National Mortgage Association."

**Fed Money Wire.** A computerized communications system that connects the Federal Reserve System with its member banks, certain U. S. Treasury offices, and the Washington D.C. office of the Commodity Credit Corporation. The Fed Money Wire is the book entry system used to transfer cash balances between banks for themselves and for customer accounts.

**Fed Securities Wire.** A computerized communications system that facilitates book entry transfer of securities between banks, brokers and customer accounts, used primarily for settlement of U.S. Treasury and Federal Agency securities.

**Fed.** See "Federal Reserve System."

**Federal Agency Security.** A debt instrument issued by one of the Federal Agencies. Federal Agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

**Federal Agency.** Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets. The largest Federal Agencies are GNMA, FNMA, FHLMC, FHLB, FFCB, SLMA, and TVA.

**Federal Deposit Insurance Corporation (FDIC).** Federal agency that insures deposits at commercial banks, currently to a limit of \$250,000 per depositor per bank.

**Federal Farm Credit Bank (FFCB).** One of the large Federal Agencies. A government sponsored enterprise (GSE) system that is a network of cooperatively-owned lending institutions that provides credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm-affiliated businesses. Consists of the consolidated operations of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks. Frequent issuer of discount notes, agency notes and callable agency securities. FFCB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and agricultural industry. Also issues notes under its “designated note” program.

**Federal Funds (Fed Funds).** Funds placed in Federal Reserve Banks by depository institutions in excess of current reserve requirements, and frequently loaned or borrowed on an overnight basis between depository institutions.

**Federal Funds Rate (Fed Funds Rate).** The interest rate charged by a depository institution lending Federal Funds to another depository institution. The Federal Reserve influences this rate by establishing a "target" Fed Funds rate associated with the Fed's management of monetary policy.

**Federal Home Loan Bank System (FHLB).** One of the large Federal Agencies. A government sponsored enterprise (GSE) system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its “global note” and “TAP” programs.

**Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac").** One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages and participation interests financed by the sale of debt and guaranteed mortgage backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities, and MBS. Also issues notes under its “reference note” program.

**Federal National Mortgage Association (FNMA or "Fannie Mae").** One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its “benchmark note” program.

**Federal Reserve Bank.** One of the 12 distinct banks of the Federal Reserve System.

**Federal Reserve System (the Fed).** The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Fed Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven member Board of Governors known as the “Federal Reserve Board” and headed by its Chairman.

**Financial Industry Regulatory Authority, Inc. (FINRA).** A private corporation that acts as a self-regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD). Though sometimes mistaken for a government agency, it is a non-governmental organization that performs financial regulation of member brokerage firms and exchange markets. The government also has a regulatory arm for investments, the Securities and Exchange Commission (SEC).

**Fiscal Agent/Paving Agent.** A bank or trust company that acts, under a trust agreement with a corporation or municipality, in the capacity of general treasurer. The agent performs such duties as making coupon payments, paying rents, redeeming bonds, and handling taxes relating to the issuance of bonds.

**Fitch Investors Service, Inc.** One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

**Floating Rate Security (FRN or "floater").** A bond with an interest rate that is adjusted according to changes in an interest rate or index. Differs from variable-rate debt in that the changes to the rate take place immediately when the index changes, rather than on a predetermined schedule. See also "Variable Rate Security."

**Freddie Mac.** See "Federal Home Loan Mortgage Corporation."

**Ginnie Mae.** See "Government National Mortgage Association."

**Global Notes:** Notes designed to qualify for immediate trading in both the domestic U.S. capital market and in foreign markets around the globe. Usually large issues that are sold to investors worldwide and therefore have excellent liquidity. Despite their global sales, global notes sold in the U.S. are typically denominated in U.S. dollars.

**Government National Mortgage Association (GNMA or "Ginnie Mae").** One of the large Federal Agencies. Government-owned Federal Agency that acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities. Largest issuer of mortgage pass-through securities. GNMA debt is guaranteed by the full faith and credit of the U.S. government (one of the few agencies that are actually full faith and credit of the U.S. government).

**Government Securities.** An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, Bonds, and SLGS."

**Government Sponsored Enterprise (GSE).** Privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. government, but they are not direct obligations of the U.S. government. For this reason, these securities will offer a yield premium over U.S. Treasuries. Examples of GSEs include: FHLB, FHLMC, FNMA, and SLMA.

**Government Sponsored Enterprise Security.** A security issued by a Government Sponsored Enterprise. Considered Federal Agency Securities.

**Index.** A compilation of statistical data that tracks changes in the economy or in financial markets.

**Interest-Only (IO) STRIP.** A security based solely on the interest payments from the bond. After the principal has been repaid, interest payments stop and the value of the security falls to nothing. Therefore, IOs are considered risky investments. Usually associated with mortgage-backed securities.

**Internal Controls.** An internal control structure ensures that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely

to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

1. **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. **Separation of transaction authority from accounting and record keeping** - A separation of duties is achieved by separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction.
3. **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

**Inverse Floater.** A floating rate security structured in such a way that it reacts inversely to the direction of interest rates. Considered risky as their value moves in the opposite direction of normal fixed-income investments and whose interest rate can fall to zero.

**Investment Advisor.** A company that provides professional advice managing portfolios, investment recommendations, and/or research in exchange for a management fee.

**Investment Adviser Act of 1940.** Federal legislation that sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

**Investment Grade.** Bonds considered suitable for preservation of invested capital, including bonds rated a minimum of Baa3 by Moody's, BBB- by Standard & Poor's, or BBB- by Fitch. Although "BBB" rated bonds are considered investment grade, most public agencies cannot invest in securities rated below "A."

**Liquidity.** Relative ease of converting an asset into cash without significant loss of value. Also, a relative measure of cash and near-cash items in a portfolio of assets. Additionally, it is a term describing the marketability of a money market security correlating to the narrowness of the spread between the bid and ask prices.

**Local Government Investment Pool (LGIP).** An investment by local governments in which their money is pooled as a method for managing local funds. (e.g., Florida State Board of Administration's Florida Prime Fund).

**Long-Term Core Investment Program.** Funds that are not needed within a one-year period.

**Market Value.** The fair market value of a security or commodity. The price at which a willing buyer and seller would pay for a security.

**Mark-to-market.** Adjusting the value of an asset to its market value, reflecting in the process unrealized gains or losses.

**Master Repurchase Agreement.** A widely accepted standard agreement form published by the Securities Industry and Financial Markets Association (SIFMA) that is used to govern and document Repurchase Agreements and protect the interest of parties in a repo transaction.

**Maturity Date.** Date on which principal payment of a financial obligation is to be paid.

**Medium Term Notes (MTN's).** Used frequently to refer to corporate notes of medium maturity (5-years and under). Technically, any debt security issued by a corporate or depository institution with a maturity from 1 to 10 years and issued under an MTN shelf registration. Usually issued in smaller issues with varying coupons and maturities, and underwritten by a variety of broker/dealers (as opposed to large corporate deals issued and underwritten all at once in large size and with a fixed coupon and maturity).

**Money Market.** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptance, etc.) are issued and traded.

**Money Market Mutual Fund (MMF).** A type of mutual fund that invests solely in money market instruments, such as: U.S. Treasury bills, commercial paper, bankers' acceptances, and repurchase agreements. Money market mutual funds are registered with the SEC under the Investment Company Act of 1940 and are subject to "rule 2a-7" which significantly limits average maturity and credit quality of holdings. MMF's are managed to maintain a stable net asset value (NAV) of \$1.00. Many MMFs carry ratings by a NRSRO.

**Moody's Investors Service.** One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

**Mortgage Backed Securities (MBS).** Mortgage-backed securities represent an ownership interest in a pool of mortgage loans made by financial institutions, such as savings and loans, commercial banks, or mortgage companies, to finance the borrower's purchase of a home or other real estate. The majority of MBS are issued and/or guaranteed by GNMA, FNMA, and FHLMC. There are a variety of MBS structures with varying levels of risk and complexity. All MBS have reinvestment risk as actual principal and interest payments are dependent on the payment of the underlying mortgages which can be prepaid by mortgage holders to refinance and lower rates or simply because the underlying property was sold.

**Mortgage Pass-Through Securities.** A pool of residential mortgage loans with the monthly interest and principal distributed to investors on a pro-rata basis. The largest issuer is GNMA.

**Municipal Note/Bond.** A debt instrument issued by a state or local government unit or public agency. The vast majority of municipals are exempt from state and federal income tax, although some non-qualified issues are taxable.

**Mutual Fund.** Portfolio of securities professionally managed by a registered investment company that issues shares to investors. Many different types of mutual funds exist (e.g., bond, equity, and money market funds); all except money market funds operate on a variable net asset value (NAV).

**Negotiable Certificate of Deposit (Negotiable CD).** Large denomination CDs (\$100,000 and larger) that are issued in bearer form and can be traded in the secondary market.

**Net Asset Value.** The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets including securities, cash, and any accrued earnings, then subtracting the total assets from the fund's liabilities, and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.)

$$\frac{[(\text{Total assets}) - (\text{Liabilities})]}{(\text{Number of shares outstanding})}$$

**NRSRO.** A "Nationally Recognized Statistical Rating Organization" (NRSRO) is a designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating. Includes Moody's, S&P, Fitch, and Duff & Phelps.

**Offered Price.** See also "Ask Price."

**Open Market Operations.** A Federal Reserve monetary policy tactic entailing the purchase or sale of government securities in the open market by the Federal Reserve System from and to primary dealers in order to influence the money supply, credit conditions, and interest rates.

**Par Value.** The face value, stated value, or maturity value of a security.

**Physical Delivery.** Delivery of readily available underlying assets at contract maturity.

**Portfolio.** Collection of securities and investments held by an investor.

**Premium.** The amount by which a bond or other financial instrument sells above its face value. See also "Discount."

**Primary Dealer.** A designation given to certain government securities dealer by the Federal Reserve Bank of New York. Primary dealers can buy and sell government securities directly with the Fed. Primary dealers also submit daily reports of market activity and security positions held to the Fed and are subject to its informal oversight. Primary dealers are the largest buyers and sellers by volume in the U.S. Treasury securities market.

**Prime Paper.** Commercial paper of high quality. Highest rated paper is A-1+/A-1 by S&P and P-1 by Moody's.

**Principal.** Face value of a financial instrument on which interest accrues. May be less than par value if some principal has been repaid or retired. For a transaction, principal is par value times price and includes any premium or discount.

**Prudent Expert Rule.** Standard that requires that a fiduciary manage a portfolio with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. This statement differs from the "prudent person" rule in that familiarity with such matters suggests a higher standard than simple prudence.

**Prudent Investor Standard.** Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. More stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

**Qualified Public Depository** - Per Subsection 280.02(26), F.S., “qualified public depository” means any bank, savings bank, or savings association that:

1. Is organized and exists under the laws of the United States, the laws of this state or any other state or territory of the United States.
2. Has its principal place of business in this state or has a branch office in this state which is authorized under the laws of this state or of the United States to receive deposits in this state.
3. Has deposit insurance under the provision of the Federal Deposit Insurance Act, as amended, 12 U.S.C. ss.1811 et seq.
4. Has procedures and practices for accurate identification, classification, reporting, and collateralization of public deposits.
5. Meets all requirements of Chapter 280, F.S.
6. Has been designated by the Chief Financial Officer as a qualified public depository.

**Range Note.** A type of structured note that accrues interest daily at a set coupon rate that is tied to an index. Most range notes have two coupon levels; a higher accrual rate for the period the index is within a designated range, the lower accrual rate for the period that the index falls outside the designated range. This lower rate may be zero and may result in zero earnings.

**Rate of Return.** Amount of income received from an investment, expressed as a percentage of the amount invested.

**Realized Gains (Losses).** The difference between the sale price of an investment and its book value. Gains/losses are “realized” when the security is actually sold, as compared to “unrealized” gains/losses which are based on current market value. See “Unrealized Gains (Losses).”

**Reference Bills:** FHLMC’s short-term debt program created to supplement its existing discount note program by offering issues from one month through one year, auctioned on a weekly or on an alternating four-week basis (depending upon maturity) offered in sizeable volumes (\$1 billion and up) on a cycle of regular, standardized issuance. Globally sponsored and distributed, Reference Bill issues are intended to encourage active trading and market-making and facilitate the development of a term repo market. The program was designed to offer predictable supply, pricing transparency, and liquidity, thereby providing alternatives to U.S. Treasury bills. FHLMC’s Reference Bills are unsecured general corporate obligations. This program supplements the corporation’s existing discount note program. Issues under the Reference program constitute the same credit standing as other FHLMC discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

**Reference Notes:** FHLMC’s intermediate-term debt program with issuances of 2, 3, 5, 10, and 30-year maturities. Initial issuances range from \$2 - \$6 billion with re-openings ranging \$1 - \$4 billion.

The notes are high-quality bullet structures securities that pay interest semiannually. Issues under the Reference program constitute the same credit standing as other FHLMC notes; they simply add organization and liquidity to the intermediate- and long-term Agency market.

**Repurchase Agreement (Repo).** A short-term investment vehicle where an investor agrees to buy securities from a counterparty and simultaneously agrees to resell the securities back to the counterparty at an agreed upon time and for an agreed upon price. The difference between the purchase price and the sale price represents interest earned on the agreement. In effect, it represents a collateralized loan to the investor, where the securities are the collateral. Can be DVP, where securities are delivered to the investor’s custodial bank, or “tri-party” where the

securities are delivered to a third party intermediary. Any type of security can be used as “collateral,” but only some types provide the investor with special bankruptcy protection under the law. Repos should be undertaken only when an appropriate Securities Industry and Financial Markets Association (SIFMA) approved master repurchase agreement is in place.

**Reverse Repurchase Agreement (Reverse Repo).** A repo from the point of view of the original seller of securities. Used by dealers to finance their inventory of securities by essentially borrowing at short-term rates. Can also be used to leverage a portfolio and in this sense, can be considered risky if used improperly.

**Safekeeping.** Service offered for a fee, usually by financial institutions, for the holding of securities and other valuables. Safekeeping is a component of custody services.

**Secondary Market.** Markets for the purchase and sale of any previously issued financial instrument.

**Securities Industry and Financial Markets Association (SIFMA).** The bond market trade association representing the largest securities markets in the world. In addition to publishing a Master Repurchase Agreement, widely accepted as the industry standard document for Repurchase Agreements, the SIFMA also recommends bond market closures and early closes due to holidays.

**Securities Lending.** An arrangement between an investor and a custody bank that allows the custody bank to “loan” the investor's investment holdings, reinvest the proceeds in permitted investments, and shares any profits with the investor. Should be governed by a securities lending agreement. Can increase the risk of a portfolio in that the investor takes on the default risk on the reinvestment at the discretion of the custodian.

**Sinking Fund.** A separate accumulation of cash or investments (including earnings on investments) in a fund in accordance with the terms of a trust agreement or indenture, funded by periodic deposits by the issuer (or other entity responsible for debt service), for the purpose of assuring timely availability of moneys for payment of debt service. Usually used in connection with term bonds.

**Spread.** The difference between the price of a security and similar maturity U.S. Treasury investments, expressed in percentage terms or basis points. A spread can also be the absolute difference in yield between two securities. The securities can be in different markets or within the same securities market between different credits, sectors, or other relevant factors.

**Standard & Poor's.** One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

**STRIPS (Separate Trading of Registered Interest and Principal of Securities).** Acronym applied to U.S. Treasury securities that have had their coupons and principal repayments separated into individual zero-coupon Treasury securities. The same technique and "strips" description can be applied to non-Treasury securities (e.g., FNMA strips).

**Structured Notes.** Notes that have imbedded into their structure options such as step-up coupons or derivative-based returns.

**Supranational.** Supranational organizations are international financial institutions that are generally established by agreements among nations, with member nations contributing capital and participating in management. These agreements provide for limited immunity from the laws of member countries. Bonds issued by these institutions are part of the broader class of Supranational, Sovereign, and Non-U.S. Agency (SSA) sector bonds. Supranational bonds finance economic and infrastructure development and support environmental protection, poverty reduction, and renewable energy around the globe. For example, the World Bank, International Finance Corporation (IFC), and African Development Bank (AfDB) have “green bond” programs specifically designed for energy resource conservation and management. Supranational bonds, which are issued by multi-national organizations that transcend national boundaries. Examples include the World Bank, African Development Bank, and European Investment Bank.

**Swap.** Trading one asset for another.

**TAP Notes:** Federal Agency notes issued under the FHLB TAP program. Launched in 6/99 as a refinement to the FHLB bullet bond auction process. In a break from the FHLB's traditional practice of bringing numerous small issues to market with similar maturities, the TAP Issue Program uses the four most common maturities and reopens them up regularly through a competitive auction. These maturities (2, 3, 5, and 10 year) will remain open for the calendar quarter, after which they will be closed and a new series of TAP issues will be opened to replace them. This reduces the number of separate bullet bonds issued, but generates enhanced awareness and liquidity in the marketplace through increased issue size and secondary market volume.

**Tennessee Valley Authority (TVA).** One of the large Federal Agencies. A wholly owned corporation of the United States government that was established in 1933 to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. Power operations are separated from non-power operations. TVA securities represent obligations of TVA, payable solely from TVA's net power proceeds, and are neither obligations of nor guaranteed by the United States. TVA is currently authorized to issue debt up to \$30 billion. Under this authorization, TVA may also obtain advances from the U.S. Treasury of up to \$150 million. Frequent issuer of discount notes, agency notes, and callable agency securities.

**Total Return.** Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

**Treasuries.** Collective term used to describe debt instruments backed by the U.S. government and issued through the U.S. Department of the Treasury. Includes Treasury bills, Treasury notes, and Treasury bonds. Also a benchmark term used as a basis by which the yields of non-Treasury securities are compared (e.g., "trading at 50 basis points over Treasuries").

**Treasury Bills (T-Bills).** Short-term direct obligations of the United States government issued with an original term of one year or less. Treasury bills are sold at a discount from face value and do not pay interest before maturity. The difference between the purchase price of the bill and the maturity value is the interest earned on the bill. Currently, the U.S. Treasury issues 4-week, 13-week, and 26-week T-Bills.

**Treasury Bonds.** Long-term interest-bearing debt securities backed by the U.S. government and issued with maturities of ten years and longer by the U.S. Department of the Treasury.

**Treasury Notes.** Intermediate interest-bearing debt securities backed by the U.S. government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury. The Treasury currently issues 2-year, 3-year, 5-year, and 10-year Treasury Notes.

**Trustee.** A bank designated by an issuer of securities as the custodian of funds and official representative of bondholders. Trustees are appointed to insure compliance with the bond documents and to represent bondholders in enforcing their contract with the issuer.

**Uniform Net Capital Rule.** SEC Rule 15c3-1 that outlines the minimum net capital ratio (ratio of indebtedness to net liquid capital) of member firms and non-member broker/dealers.

**Unrealized Gains (Losses).** The difference between the market value of an investment and its book value. Gains/losses are "realized" when the security is actually sold, as compared to "unrealized" gains/losses which are based on current market value. See also "Realized Gains (Losses)."

**Variable-Rate Security.** A bond that bears interest at a rate that varies over time based on a specified schedule of adjustment (e.g., daily, weekly, monthly, semi-annually, or annually). See also "Floating Rate Note."

**Weighted Average Maturity (or just "Average Maturity").** The average maturity of all securities and investments of a portfolio, determined by multiplying the par or principal value of each security or investment by

its maturity (days or years), summing the products, and dividing the sum by the total principal value of the portfolio. A simple measure of risk of a fixed-income portfolio.

**Weighted Average Maturity to Call.** The average maturity of all securities and investments of a portfolio, adjusted to substitute the first call date per security for maturity date for those securities with call provisions.

**Yield Curve.** A graphic depiction of yields on like securities in relation to remaining maturities spread over a time line. The traditional yield curve depicts yields on U.S. Treasuries, although yield curves exist for Federal Agencies and various credit quality corporates as well. Yield curves can be positively sloped (normal) where longer-term investments have higher yields, or "inverted" (uncommon) where longer-term investments have lower yields than shorter ones.

**Yield to Call (YTC).** Same as "Yield to Maturity," except the return is measured to the first call date rather than the maturity date. Yield to call can be significantly higher or lower than a security's yield to maturity.

**Yield to Maturity (YTM).** Calculated return on an investment, assuming all cash-flows from the security are reinvested at the same original yield. Can be higher or lower than the coupon rate depending on market rates and whether the security was purchased at a premium or discount. There are different conventions for calculating YTM for various types of securities.

**Yield.** There are numerous methods of yield determination. In this glossary, see also "Current Yield," "Yield Curve," "Yield to Call," and "Yield to Maturity."

**Attachment B**  
**Investment Pool/Fund Questionnaire**

1. A description of eligible investment securities, and a written statement of investment policy and objectives.

2. A description of interest calculations and how it is distributed, and how gains and losses are treated.

3. Does the pool/fund have a floating or stable net asset value?

4. What are the liquidity gates and fees?

5. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.

6. What is the current credit rating on the pool/fund?

7. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.

8. A schedule for receiving statements and portfolio listings.

9. Are reserves, retained earnings, etc. utilized by the pool/fund?

10. A fee schedule, and when and how is it assessed.

11. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

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**INVESTMENT POLICY STATEMENT**  
**FOR**  
**ST. JOHNS COUNTY, FLORIDA**  
**BOARD OF COUNTY COMMISSIONERS**  
**OTHER POST-EMPLOYMENT BENEFITS TRUST**

*Prepared by:*

*Hunter Conrad ~~Cheryl Strickland~~*  
*Clerk of the Circuit Court and Comptroller*

*Approved: \_\_\_\_\_, 2014*

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**I. Scope**

The St. Johns County Board of County Commissioners has established the St. Johns County Other Post-Employment Benefits Trust (the “Trust”). This Trust is intended to provide funding of other non-pension post-employment benefits (“OPEB”) for those employees who meet the age and service requirements outlined in the plan document. The Trustees of the Trust hereby adopt this Investment Policy Statement (“Policy Statement”) for the following purposes.

**II. Purpose**

The main investment objective of the Trust is to achieve long-term growth of Trust assets by maximizing long-term rate of return on investments and minimizing risk of loss to fulfill the St. Johns County Board of County Commissioners’ current and long-term OPEB obligations.

The purpose of this Policy Statement is to achieve the following:

1. Document investment objectives, performance expectations and investment guidelines for Trust assets.
2. Establish an appropriate investment strategy for managing all Trust assets, including an investment time horizon, risk tolerance ranges and asset allocation to provide sufficient diversification and overall return over the long-term time horizon of the Trust.
3. Establish investment guidelines to control overall risk and liquidity.
4. Establish periodic performance reporting requirements to monitor investment results and confirm that the investment policy is being followed.
5. Comply with fiduciary, prudence, due diligence and legal requirements for Trust assets.

**III. Investment Authority**

Responsibility for execution and oversight of the investment program is vested with the Clerk of the Circuit Court and Comptroller (“Clerk”). Responsibility for the administration of the investment program is hereby delegated by the Clerk to the ~~Finance Director~~ Chief Financial Officer, who shall maintain an Investment Procedures and Internal Controls Manual based on this Policy. The ~~Finance Director~~ Chief Financial Officer shall be responsible for monitoring internal controls, administrative controls and to regulate the activities of the Clerk’s staff involved with the investment program. The Authorized Staff is limited to the following positions:

- Clerk of the Circuit Court and Comptroller
- ~~Finance Director~~ Chief Financial Officer
- Comptroller’s Office Assistant ~~Finance~~-Director
- Office of Management & Budget

1. The Clerk may utilize investment advisors or managers to facilitate the effective management of the Trust assets and to maintain compliance with this Policy’s

investment objectives. The investment advisor (“Advisor”) may assist the Clerk in the investment process and to maintain compliance with this Policy Statement. The Advisor may assist the Clerk in establishing investment policy objectives and guidelines. The Advisor will adjust asset allocation for the Trust subject to the guidelines and limitations set forth in this Policy Statement. The Advisor will also select investment managers (“Managers”) and strategies consistent with its role as a fiduciary for the Trust. The investment vehicles allowed may include mutual funds, commingled trusts, separate accounts, limited partnerships and other investment vehicles deemed to be appropriate by the Advisor. The Advisor is also responsible for monitoring and reviewing investment managers; measuring and evaluating performance; and other tasks as deemed appropriate in its role as Advisor for Trust assets. The Advisor may also select investments with discretion to purchase, sell, or hold specific securities, such as Exchange Traded Funds, that will be used to meet the Trust’s investment objectives. The Advisor shall never take possession of securities, cash or other assets of the Trust, all of which shall be held by the custodian. The Advisor must be registered with the Securities and Exchange Commission.

2. A custodian selected by the Trust to maintain possession of physical securities and records of street name securities owned by the Trust, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Trust.
3. A trustee appointed by the Trust, such as a bank trust department, if the Trust does not have its own Trustees, to assume fiduciary responsibility for the administration of Trust assets; provided, however, that if the Clerk shall have appointed an investment advisor, then any trustee appointed under this paragraph shall have no authority with respect to selection of investments.
4. Specialists such as attorneys, auditors, actuaries and, retirement plan consultants to assist the Clerk in meeting its responsibilities and obligations to administer Trust assets prudently.
5. The Clerk will review the Policy at least annually and the Policy may be revised upon the Board’s approval.

#### **IV. Investment and Fiduciary Standards**

- A. The Trust’s assets will be invested in a manner consistent with the standards set forth in:
  1. Chapters 112 and 518, Florida Statutes.
  2. St. Johns County Ordinances.
  3. The Trust’s Investment Policy Statement.
  4. In the event of a conflict within these provisions or any other provisions of law authorizing investments, the investment and fiduciary standards set forth in Section 112.661(4), Florida Statutes and item (1) above shall prevail.

- B. The Clerk will adhere to the Prudent Person Standard and this standard shall be applied in the context of managing the overall Trust. The Prudent Person Standard is as follows:  
“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 from the investment.”
- C. Any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of Prudent Expert. The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the Investment Advisor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.
- D. The Investment Advisor must be a bank, insurance company, or investment adviser as defined by the Investment Advisers Act of 1940.

**V. Statement of Investment Objectives**

The investment objectives of the Trust are as follows:

1. To invest assets of the Trust in a manner consistent with the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of Trust beneficiaries, and (b) assets are to be diversified in order to minimize the impact of large losses from individual investments.
2. To provide for funding and anticipated withdrawals on a continuing basis for payment of benefits and reasonable expenses of operation of the Trust.
3. To enhance the value of Trust assets in real terms over the long-term through asset appreciation and income generation, while maintaining a reasonable investment risk profile.
4. Subject to performance expectations over the long-term, to minimize principal fluctuations over the Time Horizon (as defined below).
5. To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the investment objective set forth in this Policy Statement under the section labeled “Performance Expectations”.

## **VI. Investment Guidelines**

Within this section of the Policy Statement, several terms will be used to articulate various investment concepts. The descriptions are meant to be general and may share investments otherwise considered to be in the same asset class. They are:

"Growth Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on capital appreciation. Investments within the Growth Assets category can include income and risk mitigating characteristics, so long as the predominant investment risk and return characteristic is capital appreciation. Examples of such investments or asset classes are: domestic and international equities or equity funds, private or leveraged equity, certain real estate investments, and hedge funds focused on equity risk mitigation or equity-like returns.

"Income Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on income generation. Investments within the Income Assets category can include capital appreciation and risk mitigating characteristics, so long as the primary investment risk and return characteristic is income generation. Examples of such investments or asset classes are: fixed income securities, guaranteed investment contracts, certain real estate investments, and hedge funds focused on interest rate risk mitigation or income investment-like returns.

"Real Return Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on real returns after inflation. Investments within the Real Return category can include inflation protected securities, commodities, certain real estate investments and hedge funds.

### Time Horizon

The Trust's investment objectives are based on a long-term investment horizon ("Time Horizon") of five years or longer. Interim fluctuations should be viewed with appropriate perspective. The Clerk has adopted a long-term investment horizon such that the risks and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

### Liquidity and Diversification

In general, the Trust may hold some cash, cash equivalent, and/or money market funds for near-term Trust benefits and expenses (the "Trust Distributions"). Remaining assets will be invested in longer-term investments and shall be diversified with the intent to minimize the risk of long-term investment losses. Consequently, the total portfolio will be constructed and maintained to provide diversification with regard to the concentration of holdings in individual issues, issuers, countries, governments or industries.

### Asset Allocation

The Clerk believes that to achieve the greatest likelihood of meeting the Trust's investment objectives and the best balance between risk and return for optimal diversification, assets will be invested in accordance with the targets for each asset class as follows to achieve an average total annual rate of return that is equal to or greater than the Trust's target rate of return over the long-term, as described in the section titled "Performance Expectations".

### Investment Assets

<u>Asset Classes</u>	<u>Asset Weightings</u>	
	<u>Range</u>	<u>Target</u>
<b>Growth Assets</b>		
Domestic Equity	22% - 62%	42%
International Equity	3% - 43%	23%
Other	0% - 20%	0%
<b>Income Assets</b>		
Fixed Income	15% - 55%	35%
Other	0% - 20%	0%
<b>Real Return Assets</b>	0% - 20%	0%
<b>Cash Equivalents</b>	0% - 20%	0%

### Liquidity Assets

	<u>Range</u>	<u>Target</u>
<b>Cash Equivalents</b>	0% - 100%	1%

The Advisor and each Manager will be evaluated against their peers on the performance of the total funds under their direct management.

### Rebalancing Philosophy

The asset allocation range established by this Policy Statement represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside Policy Statement ranges. When allocations breach the specified ranges, the Advisor will rebalance the assets within the specified ranges. The Advisor may also rebalance based on market conditions.

### Risk Tolerance

Subject to investment objectives and performance expectations, the Trust will be managed in a style that seeks to minimize principal fluctuations over the established Time Horizon.

### Performance Expectations

Over the long-term, five years or longer, the performance objective for the Trust will be to achieve an average total annual rate of return that is equal to or greater than the Trust's actuarial discount rate. Additionally, it is expected that the annual rate of return on Trust assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be judged by reviewing returns in the context of industry standard benchmarks, peer universe comparisons for individual Trust investments and blended benchmark comparisons for the Trust in its entirety.

## **VII. Selection of Investment Managers**

The Advisor shall prudently select appropriate Managers to invest the assets of the Trust. Managers must meet the following criteria:

The Manager must provide historical quarterly performance data compliant with Global Investment Performance Standards (GIPS®), Securities & Exchange Commission ("SEC"), Financial Industry Regulatory Agency ("FINRA") or industry recognized standards, as appropriate.

The Manager must provide detailed information on the history of the firm, key personnel, support personnel, key clients, and fee schedule (including most-favored-nation clauses). This information can be a copy of a recent Request for Proposal ("RFP") completed by the Manager or regulatory disclosure.

The Manager must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.

The investment professionals making the investment decisions must have a minimum of three (3) years of experience managing similar strategies either at their current firm or at previous firms.

Where other than common funds such as mutual funds or commingled trusts are utilized, the Manager must confirm receipt, understanding and adherence to this Policy Statement and any investment specific policies by signing a consent form provided to the Manager prior to investment of Trust assets.

## VIII. Guidelines for Portfolio Holdings

### Direct Investments by Advisor

Every effort shall be made, to the extent practical, prudent and appropriate, to select investments that have investment objectives and policies that are consistent with this Policy Statement (as outlined in the following sub-sections of the “Guidelines for Portfolio Holdings”). However, given the nature of the investments, it is recognized that there may be deviations between this Policy Statement and the objectives of these investments.

### Multi-Manager Mutual Funds

Mutual funds that use a multi-manager approach are allowed. These mutual funds utilize a combination of multiple investment managers that follow distinct investment approaches. This structure helps provide the Trust access to investment managers at a lower fee by aggregating assets with other investors.

### Limitations on Managers’ Portfolios

#### EQUITIES

No more than the greater of 5% or weighting in the relevant index (Russell 3000 Index for U.S. issues and MSCI ACWI ex-U.S. for non-U.S. issues) of the total equity portfolio valued at market may be invested in the common equity of any one corporation; ownership of the shares of one company shall not exceed 5% of those outstanding; and not more than 40% of equity valued at market may be held in any one sector, as defined by the Global Industry Classification Standard (GICS).

Domestic Equities. Other than the above constraints, there are no quantitative guidelines as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the Manager.

International Equities. The overall non-U.S. equity allocation should include a diverse global mix that is comprised of the equity of companies from multiple countries, regions and sectors.

#### FIXED INCOME

Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies. The overall rating of the fixed income assets as calculated by the Advisor shall be investment grade, based on the rating of one Nationally Recognized Statistical Rating Organization (“NRSRO”).

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## OTHER ASSETS (ALTERNATIVES)

Alternatives may consist of non-traditional asset classes such as hedge funds, private equity, real estate and commodities, when deemed appropriate. The total allocation to this category may not exceed 30% of the overall portfolio.

*Hedge Funds:* Primary objective shall be to enhance the risk-return profile of the overall portfolio. This can be accomplished by using a combination of hedge fund strategies that may enhance returns at a reasonable level of risk or reduce volatility while providing a reasonable level of return. These asset classes may differ from traditional public market asset classes due to the use of certain strategies including short-selling, leverage, and derivatives. Hedge funds may also invest across asset classes. The use of direct hedge funds and fund-of-hedge funds are allowed. For purposes of asset allocation targets and limitations, single strategy hedge funds will be categorized under the specific asset class of the fund. For example, a long/short U.S. equity fund will be categorized as “Other” in the Growth Assets category while a long/short credit fund will be categorized as “Other” in the Income Assets category. Multi-strategy hedge funds that cannot be easily categorized under one asset class will be included in “Other” under either the Growth Assets or Income Assets category depending on the risk-return profile of the strategy.

*Private Equity:* Private equity is less liquid than publicly traded equity securities and can provide returns that are greater than what is available in publicly traded markets. The private equity portfolio may include investments in a variety of commingled/partnership and direct investment vehicles including, but not limited to, venture capital, buyout, turnaround, mezzanine, distressed security, and special situation funds. The private equity portfolio is recognized to be long-term in nature and highly illiquid. Due to their higher risk, private equity investments are expected to provide higher returns than publicly traded equity securities. For purposes of asset allocation targets and limitations, these funds will be categorized as “Other” under the Growth Assets category.

*Real Estate:* Consists of publicly traded Real Estate Investment Trust (“REIT”) securities and/or non-publicly traded private real estate and shall be diversified across a broad array of property types and geographic locations. Investments of this type are designed to provide a stable level of income combined with potential for price appreciation, particularly in periods of unexpected inflation. For private real estate, the illiquid, long-term nature should be considered. For purposes of asset allocation targets and limitations, publicly traded REITs will be categorized as “Other” under the Growth Assets category. Depending on the investment characteristics of a private real estate fund, the fund will be categorized as “Other” under either the Income Assets category, for example, a core real estate fund, or under the Growth Assets category, for example, an opportunistic real estate fund where capital gains are expected to make up a significant portion of the total return.

*Inflation Hedge:* Shall consist of pooled vehicles holding among other assets: Treasury Inflation Protected Securities (“TIPS”), commodities or commodity contracts, index-linked derivative contracts, certain real estate or real property funds and the equity of companies in

businesses thought to hedge inflation. Inflation hedge assets will be reported in the Real Return Assets category.

Cash Equivalents

Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

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### Portfolio Risk Hedging

Portfolio investments designed to hedge various risks including volatility risk, interest rate risk, etc. are allowed to the extent that the investments are not used for the sole purpose of leveraging Trust assets. One example of a hedge vehicle is an exchange traded fund (“ETF”) which takes short positions.

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### Prohibited Investments

Except for purchase within authorized investments, securities having the following characteristics are not authorized and shall not be purchased: letter stock and other unregistered securities, direct commodities or commodity contracts, or private placements (with the exception of Rule 144A securities). Further, derivatives, options, or futures for the sole purpose of direct portfolio leveraging are prohibited. Direct ownership of real estate, natural resource properties such as oil, gas or timber and the purchase of collectibles is also prohibited.

### Third Party Custodial Agreements

All assets of the Trust shall be held by a custodian approved by the Clerk for safekeeping of Trust assets. The custodian shall produce statements on a monthly basis, listing the name and value of all assets held, and the dates and nature of all transactions in accordance with the terms in the Trust Agreement. Investments of the Trust not held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts. Investments and portfolio securities may not be loaned.

## **IX. Control Procedures**

### Review of Investment Objectives

The Advisor shall review annually and report to the Clerk the appropriateness of this Policy Statement for achieving the Trust’s stated objectives. It is not expected that this Policy Statement will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in this Policy Statement.

### Review of Investment Performance

The Advisor shall report on a quarterly basis to the Clerk to review the investment performance of the Trust. In addition, the Advisor will be responsible for keeping the Clerk advised of any material change in investment strategy, Managers, and other pertinent information potentially affecting performance of the Trust.

The Advisor shall compare the investment results on a quarterly basis to appropriate peer universe benchmarks, as well as market indices in both equity and fixed income markets. Examples of benchmarks and indexes that will be used include the Russell 3000 Index for broad U.S. equity strategies; S&P 500 Index for large cap U.S. equities, Russell 2000 Index for

small cap U.S. equities, MSCI ACWI ex-U.S. Index for broad based non-U.S. equity strategies; MSCI Europe, Australasia, and Far East (EAFE) Index for developed markets international equities, Barclays Capital Aggregate Bond Index for fixed income securities, and the U.S. 91 Day T-bill for cash equivalents. The Russell 3000 Index will be used to benchmark the U.S. equities portfolio; the MSCI ACWI ex-U.S. Index will be used to benchmark the non-U.S. equities portfolio; the Barclays U.S. Aggregate Bond Index will be used to benchmark the fixed income portfolio. The categories “Other” will be benchmarked against appropriate indices depending on the specific characteristics of the strategies and funds used.

#### Voting of Proxies

The Clerk recognizes that proxies are a significant and valuable tool in corporate governance. The voting rights of individual stocks held in separate accounts or collective, common, or pooled funds will be exercised by the investment managers in accordance with their own proxy voting policies. The voting rights of funds will be exercised by the Advisor.

#### **X. Expected Annual Rate of Return**

On a five year rolling return basis period, the performance objective for Trust assets will be to achieve an average total annual rate of return that is equal to or greater than the Trust’s assumed rate of return of 7.0% in its actuarial valuation. Additionally, it is expected that the annual rate of return on Trust assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be judged by reviewing returns in the context of industry standard benchmarks, peer universe comparisons for individual Trust investments and blended benchmark comparisons for the Trust in its entirety.

#### **XI. Master Repurchase Agreement**

All approved institutions and dealers transacting repurchase agreements will execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions will adhere to the requirements of the Master Repurchase Agreement.

#### **XII. Bid Requirements**

The Board shall determine the approximate maturity date based on cash-flow needs and market conditions, analyze and select one or more optimal types of investments and ~~competitively~~ competitively bid the security in question when feasible and appropriate. Except as otherwise required by law, the most economically advantageous bid must be selected.

#### **XIII. Internal Controls**

A. The Clerk will establish a system of internal controls and written operational procedures to be a part of the Trust’s operational procedures. The internal controls should be designed to prevent losses of funds, which might arise from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees. The written

procedures should include reference to safekeeping, separation of transaction authority from accounting and record keeping, wire transfer agreements, banking service contracts, collateral/depository agreements, and “delivery-vs. -payment” procedures. No person may engage in an investment transaction except as authorized under the terms of this investment policy.

- B. Independent auditors, as a normal part of their annual financial audits, will conduct a review of the system of internal controls to ensure compliance with policies and procedures. Additionally, the Trust’s Actuary, Investment Advisor, and the County’s auditors will complete an annual system review.

#### **XIV. Continuing Education**

Annually, members of the Clerk’s office have the responsibility for completing continuing education programs in matters relating to the Trust’s investments by reading the appropriate materials and by attending the appropriate local and national conferences and seminars as authorized by the Clerk.

#### **XV. Reporting**

On an annual basis, the Clerk and the investment advisor will provide the Board with an investment report regarding the Trust’s investment portfolio. The annual report shall provide all, but not limited to, the following: name and type of securities in which the funds are invested, the amount invested, income earned, the book value and the market value of the investment portfolio. The review will also include a review of the investment policy as prescribed in the Investment Guidelines Section of this document. Investment reports shall be available to the public.

#### **XVI. Valuation of Illiquid Investments**

All illiquid investments for which a generally recognized market is not available or for which there is no consistent or generally recognized pricing mechanism will be given an actuarial valuation by the Trust’s Actuary on an annual basis. For each actuarial valuation, the Board must verify the determination of a fair market value for those investments and ascertain that their determination complies with all -applicable state and federal requirements.

**XVII. Filing of Investment Policy**

Upon adoption by the Board of County Commissioners, the investment policy shall be promptly filed with the Department of Management Services and the plan's sponsor and consulting actuary. The effective date of the investment policy, and any amendment thereto, shall be the 31st calendar day following the filing date with the plan sponsor.

**XVIII. Adoption of Investment Policy Statement**

Any changes and exceptions to this Policy Statement will be made in writing and adopted by the Board of County Commissioners. Once adopted, changes and exceptions will be delivered to each Manager, as appropriate, by the Advisor.

**APPROVED AND ADOPTED BY THE BOARD OF COUNTY COMMISSIONERS ON**

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\_\_\_\_\_  
Chairman of the Board

\_\_\_\_\_  
Clerk to the Board

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date