ADOPTED BY RESOLUTION R-23-057

MANATEE COUNTY, FLORIDA

INVESTMENT POLICY

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Table of Contents

This Investment Policy (the "Policy) applies to all funds of each governmental entity, special district, or unit of local government, the governing body of which presently is or subsequently becomes by law the Board of County Commissioners of Manatee County, Florida, in excess of those funds required to meet current expenses. The Policy shall not apply to pension funds. Nor shall the Policy apply to funds related to the issuance of debt where there may be other existing policies, defined permitted investments, or indentures in effect for such funds, however, absent such other controlling documents, the Policy shall apply to such funds. Said governmental entities, special districts, and units of local government are hereinafter referred to as "Manatee County" and presently include each of the following:

- County of Manatee, Florida
- Manatee County Port Authority
- Any other municipal service taxing unit, special purpose district, or other legal entity governed by the Manatee County Board of County Commissioners.

The Policy does not include any financial assets under the direct control of any of the Constitutional Officers of Manatee County. At such time as the funds under their direct control pass to Manatee County, the Policy will be applicable.

I. INVESTMENT RESPONSIBILITIES

A. <u>Legal Requirements</u>

Investments of Manatee County are subject to the Florida Statutes, Chapter 218.415. The Policy is established to supplement the existing statutory authority.

1. <u>Investment Authority of Manatee County</u>

Investments of Manatee County must conform to the provisions of Section 218.415, Florida Statutes, as amended from time to time. The Board of County Commissioners shall establish the Policy and implementation of the Policy is delegated to the Clerk of Circuit Court and County Comptroller ("Comptroller"), acting in her or his capacity as Comptroller. The Comptroller is herewith delegated the responsibility of establishing detailed investment and accounting procedures to govern the day-to-day investment activities necessary to carry out the Policy.

2. <u>Authorized Investments</u>

Manatee County is authorized under Section 218.415 Florida Statutes to purchase the following authorized investments:

a. The Local Government Surplus Funds Trust Fund (State Investment Pool/Florida Prime administered by the State Board of Administration (SBA)) or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in s. 163.01 to include the Florida Local Government Investment Trust (FLGIT).

b. <u>Local Government Investment Pools authorized by Florida State Statutes, intergovernmental investment pool, Section 218.415, Florida Statutes</u>

c. Securities and Exchange Commission registered money market funds with the highest quality credit rating from a NRSRO

d. Interest-bearing time deposits or savings accounts in qualified public depositories as defined in Section 280.02, Florida Statutes

e. Direct obligations of the United States Government

f. Federal agencies and instrumentalities

g. Securities of, or other interest in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided the portfolio of such investment company or investment trust is limited to investment securities authorized hereunder and to Repurchase Agreements fully collateralized by such United States Government obligations and provided such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian

h. Other investments authorized by law or by ordinance for a county or a municipality. This may include Commercial Paper, Notes, and Bonds, of U.S. Corporations; and Municipal Obligations as further described in Section III. A. 1. a. below.

The County is not allowed to invest directly in any securities in which the value of that security is dependent on another security, an underlying security, or an index. These securities are often referred to as "derivatives. The County is not prohibited from investing in the Local Government Surplus Funds Trust Fund ("State Investment Pool" or "Florida PRIME") administered by the State Board of Administration of Florida ("SBA"), the Florida Local Government Investment Trust ("FLGIT"), all other Local Government Investment Pools or money market mutual funds should these funds contain derivatives.

Manatee County is herewith authorized to enter into Repurchase Agreements (for purchase and subsequent sale) for any of the investments authorized above in categories d, e, or f. All Repurchase Agreements shall adhere to the requirements of the Master Repurchase Agreement, and all approved institutions and dealers transacting Repurchase Agreements shall execute and perform as stated in the Master Repurchase Agreement.

B. <u>Collateral Requirements</u>

1. <u>General Requirements</u>

   Manatee County is required by the provisions in Chapter 280, Florida Statutes, to place its deposits only in a Qualified Public Depository ("QPD"), as defined in the Florida Statutes. Any deposit placed in a QPD is deemed to be adequately collateralized. Subsequent failure by a QPD to timely return public deposits to Manatee County will be governed by Chapter 280, Florida Statutes, as amended. In the event of a repeal of Chapter 280, Florida Statutes, the County shall adopt alternative collateralization policies.

2. <u>Repurchase Agreements</u>

   The County is herewith required to seek collateral for any Repurchase Agreements not covered under Chapter 280, Florida Statutes. Collateral placed for any Repurchase Agreement will be governed by the Master Repurchase Agreement executed between Manatee County and the various security brokers, dealers, and financial institutions. The terms for collateral will be based on economic and financial conditions existing at the time of the Repurchase Agreement and credit risk of the particular broker, dealer, or financial institution which enters into the Repurchase Agreement with Manatee County.

C. <u>County Funds and Bond Resolution Requirements</u>

All County funds in excess of those funds required to meet current expenses, exclusive of pension funds and funds related to the issuance of debt where there may be other existing policies, defined permitted investments, or indentures in effect for those funds are herewith covered by the Policy.

Certain funds are invested in compliance with specific investment policies contained within bond resolutions and official statements. Those policies were adopted in accordance with Section 218.415, Florida Statutes, and are not in conflict with the Policy. The investment of bond proceeds may be further limited or expanded by their respective bond resolutions or covenants and shall not be considered to be in conflict with the Policy.

<u>D. Internal Controls</u>

<u>The Clerk as Comptroller is responsible for protecting the Board's funds and ensuring proper accounting and reporting of securities transactions. The Clerk shall establish a system of internal controls which shall be in writing and made a part of the Board's operational procedures. The internal control structure shall be designed, established and maintained 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. The internal controls should be designed to prevent losses of funds</u>

which might arise from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees.

Internal controls deemed most important shall include (but not limited to): control of collusion; separation of transaction authority from accounting and recordkeeping; custodial safekeeping; avoidance of physical delivery securities; clear delegation of authority; written confirmation of telephone and wire transactions; and monitoring of results.

The Clerk shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

An Investment Advisory Committee shall be established and shall be comprised of:
1. The Clerk
2. Clerk's Authorized Staff
3. A member of the Manatee County Board of County Commissioners
4. A member of the public that is a resident of Manatee County who is an investment professional

The Investment Advisory Committee will 1) annually review the Investment Policy, 2) recommend changes to the Investment Policy, where needed, and 3) review the quarterly and annual investment reports and 4) review general strategies and monitor results.

II. INVESTMENT OBJECTIVES

A. Safety of Capital

Safety of capital is regarded as the highest priority in the handling of investments for Manatee County. All other investment objectives are secondary to the safety of capital. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.

From time to time, securities may be traded for other similar securities to improve yield, maturity, or credit risk. For these types of transactions, a loss may be incurred for accounting purposes, provided any of the following occurs with respect to the replacement security:

- The yield has been increased, or
- The maturity has been reduced, or
- The credit rating of the investment has been improved.

B. Maintenance of Adequate Liquidity

Provided safety of capital has been prioritized, the investment portfolio shall be structured in such a manner that will provide sufficient liquidity to pay obligations as they become due. Specific policies describing the manner in which adequate liquidity is maintained are described in Section III. B of this Policy.

C. Return on Investments

After prioritizing the safety of capital and liquidity of funds, the County next seeks to optimize return on investments within the constraints of safety and liquidity.

D. Prudence and Ethical Standards

Investment officials shall utilize the Prudent Person Rule as defined by Section 218.415(4), Florida Statutes, in the context of managing the overall investment portfolio. The Prudent Person Rule is herewith understood to mean 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."

Investment officials, or persons performing investment functions, acting in accordance with written policies and procedures, and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

III. INVESTMENT POLICIES

A. <u>Policies to Ensure Safety of Capital</u>

The following policies are set forth below to provide additional guidance in implementing the first investment objective: safety of capital.

1. <u>Reducing Credit Risk</u>

   a. Acceptable Investments

   Legally authorized investments were set forth above in Section I. A. The following is an expansion of that list, including additional restrictions:

   i. U.S. Treasury Obligations (including but not limited to):
   - U.S. Treasury Bills
   - U.S. Treasury Notes
   - U.S. Treasury Bonds

   ii. Obligations guaranteed by the U.S. Government, as to principal and interest (including but not limited to):

   - Export Import Banks of the United States
   - Farmers Home Administration
   - General Services Administration
   - Government National Mortgage Association
   - Small Business Administration

   iii. Time Deposits, Money Market Funds, and Savings Deposits of Banks and Savings and Loans organized under the laws of the State of Florida or the U.S. Government and operating in the State of Florida as a QPD:

   - Savings Accounts
   - Money Market Accounts
   - Certificates of Deposits (non-negotiable type)

   iv. Specific Obligations of the following Government Sponsored Enterprises – GSEs (including but not limited to):

   - Federal Farm Credit banks (FFCB)
   - Federal Home Loan Mortgage Corporation (FHLMC)
   - Federal Home Loan bank (FHLB) or its banks
   - Government National Mortgage Association (GNMA)

- Federal National Mortgage Association (FNMA)

Manatee County is herewith authorized to enter into Repurchase Agreements for any of the investments authorized in the first four categories above.

Permitted investments in the above listed agencies and instrumentalities shall include bonds, debentures, notes or other evidence of indebtedness issued including mortgage pass-throughs, FFIEC compliant collateralized mortgage obligations, commercial mortgage-backed securities, adjustable rate securities and adjustable rate mortgages.

v. Commercial Paper / Corporate Debt Securities

vi. Commercial Paper, Notes, and Bonds of U.S. Corporations

vii. Municipal / Tax-Exempt Obligations

Tax-exempt and taxable obligations of the State of Florida and its various local Governments, including Manatee County.

viii. Money Market Funds:

Securities of, or other interest in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided the portfolio of such investment company or investment trust is limited to United States Government obligations and to Repurchase Agreements fully collateralized by such United States Government obligations and provided such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.

ix. Intergovernmental pools authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in Section 163.01, Florida Statutes.

x. Fixed Income Funds:

Shares in an open-end and no-load fixed income mutual fund, provided such fund is registered under the Investment Company Act of 1940, whose underlying investments would be permitted for purchase under this policy.

xi. Asset Backed Securities:

Asset Backed Securities (ABS) and ABS commercial paper limited to traditional consumer receivables, such as auto, equipment, utility, or credit card receivables.

xii. Repurchase Agreements:

Manatee County is herewith authorized to enter into Repurchase Agreements for any of the investments authorized in Section III, A, 1, a, i, ii, iv, v, xi, and xii of this Policy. Repurchase Agreements are limited to transactions in which the proceeds are intended to provide liquidity.

The guidelines for investments and limits on security issues, issuers, and maturities as established by the County are addressed herein. These guidelines may be revised by the Comptroller for specific circumstances.

Any deviations in these percentages must be approved in writing by the Comptroller or Chief Deputy of Finance or Finance Director or her/his designee. No deviation shall be more than 15% from these percentages. Diversification limits shall be reviewed and revised periodically by appropriate staff as needed as approved by the Chief Deputy of Finance or Finance Director.

	Portfolio Maximum	Per Issuer Maximum	Maximum Maturity	Rating Requirement (Minimum)
U.S. Government Securities	100%	N/A	5 years	
U.S. Government Agencies	50%	25%	5 years	
Federal Instrumentalities	80%	40%	5 years	
Corporate Obligations or Corporate Notes	25%	10%	5 years	"A" by 2 NSRO's
Non-Negotiable Interest Bearing Time Certificates of Deposit or Savings Accounts/Qualified Public Depositories	50%	25%	≤1 year	
Repurchase Agreements	50%	25%	180 days or less	
Commercial Paper	50%	25%	270 Days	P-1 by Moody's & A-1 by S&P. If backed by LOC l/t debt must be rated "A" or better by (2) NRSRO's.
Municipal Bonds	20%	20%	5 years	AA rated
Asset Backed Securities	10%	10%	5 years	AA
Money Market Funds	75%	50%	N/A	AAAm or equivalent
Local Government Investment Pools (LGIP's)	100%	N/A	N/A	Stable NAV "AAA", $ in/$ out "AAAf", Floating NAV "AAAf" (S&P or equivalent by another NRSRO)

b. NRSRO Rating Categories:

The intent of the ratings restriction is to quantify credit risk. Accordingly, all securities purchased by the County must meet the ratings requirement as stipulated by the schedule in Section III, A, 1, a on the date of purchase. In some instances, an issuer may elect not to have a security rated by an NRSRO. If such security is pari passu with a rated security of the same issuer, the non-rated security may be eligible for purchase utilizing the rating of the pari passu security.

In the event a security is rated by multiple NRSROs with one of those ratings below the specified minimum category rating, the security shall not be eligible for purchase if it was most recently rated by that NRSRO at a higher category. The purpose of this restriction is to allow for purchasing securities of issuers with improving credit fundamentals and to prohibit purchasing securities of issuers with declining credit fundamentals.

c. Approved Broker/Dealers:

It is the policy of Manatee County to purchase securities from those broker/dealers or banks that have been approved by the Comptroller. Approved broker/dealers and banks will be reviewed, on at least an annual basis, to ensure they meet the evaluation criteria.

Firms will be selected at the sole discretion of the Comptroller and evaluated based on the following criteria:

i.. Banks and savings and loan associations must be a Qualified Public Depository, as determined by the State of Florida and as published in the Florida Administrative Weekly. Other financial institutions may be approved if they have a shareholders' equity of at least $250 million. For a wholly-owned subsidiary, statements of the parent holding company may be accepted to satisfy the equity requirement.

ii. Broker/dealers must be primary government securities dealers as indicated on the Federal Reserve Bank of New York list. Additionally, broker/dealers who have an existing contractual relationship, previous or current satisfactory fiduciary responsibility with the County in some other capacity, or have provided a benefit to the County may be included on the County's approved list, pending review and approval by the Comptroller.

iii. Repurchase Agreements will be conducted only with principals and not through third-party brokers acting as agents. Repurchase Agreements will be in the form specified in Section III, A of this Policy.

iv. Completion of the broker/dealer application/questionnaire provided by the Comptroller's Office

The supervising officer of an approved broker/dealer will be required to submit a certification document. The document will certify that the officer has reviewed and accepted the investment policy and objectives of the County and further agrees to disclose potential conflicts or risks to County funds that might arise out of business transactions between the firm and the Comptroller's Office or the County. All approved broker/dealers shall agree to undertake reasonable efforts to preclude imprudent transactions involving County funds. The supervising officer shall agree to exercise due diligence in monitoring the activities of other officers and subordinate staff members engaged in dealings with the Comptroller's Office.

d. Safekeeping of Securities

To protect against potential fraud and embezzlement, the investment securities of the County shall be secured through third-party custody and safekeeping procedures. Investments held in custody and safekeeping by the Federal Reserve Bank will qualify as third-party safekeeping. Other banks may qualify as third-party banks for safekeeping provided the securities are held in the Trust Department of the bank, and the total assets of the bank is in excess of $4 billion.

Certificates of deposits and other time deposits do not need to be placed with a third-party custodian since they are collateralized through Chapter 280, Florida Statutes. Prior to any transfer of securities to a third-party custodian bank, a custodian/safekeeping agreement will be executed by the custodian and the Comptroller on behalf of the County and filed for record.

e. Delivery vs. Payment

Simultaneous to the release of County funds to purchase a security, there will be a delivery of the securities purchased. Accordingly, for any sale of securities, there will be a simultaneous transfer of money to the County before the release of the securities. This policy ensures that the County neither transfers money nor securities before receiving the other portion of the transaction. Rather both transfers will happen simultaneously through a custodial bank, authorized to conduct transactions for the County.

f. Collateralization

Collateral for public deposits is controlled by Chapter 280, Florida Statutes. The County shall not be under any obligation to secure additional collateral beyond the provisions set forth in Chapter 280, except in the case of Repurchase Agreements.

Collateral requirements for Repurchase Agreements will be contained in the Master Repurchase Agreement executed between the Comptroller on behalf of the County and the broker/dealer or bank. The actual collateral requirements will be based on economic and financial conditions existing at the time of execution, as well as the credit risk of the particular broker/dealer or financial institution which enters into the Repurchase Agreement with the County.

At no time will the collateral (margin ratios) be less than the following provisions.

Margin Ratios. For purposes of calculating the margin amount, the following ratios shall be applied to the market value of the purchased securities, depending on their maturity. These margin ratios may be increased or decreased with the approval of the Comptroller.

Maturity of Purchased Securities	U.S. Treasury Securities	U.S. Agency Discount and Coupon Securities*	Mortgage-Backed or Other Securities
Under 1 Year	101%	102%	103%
1 to 5 Years	102%	103%	104%
Over 5 Years	103%	104%	105%

*Securities issued by FNMA, FFCB, and FHLB; quoted daily in the Wall Street Journal.

Market Value. In determining market value, dealers' bid prices shall be used, as quoted daily in the Wall Street Journal, and accrued interest shall be included.

g. Bidding Process

All investments, when feasible and appropriate, except the daily open Repurchase Agreement with the depository bank as it relates to the overall banking agreement, will be purchased through a competitive bidding process, using the dealers and banks on the approved list. A minimum of 3 bid quotes from the approved list. The County is under no obligation to secure competitive bids from all the dealers or banks on the approved list. Rather a decision will be made by the Chief Deputy of Finance or Finance Director or her/his designee as to the institutions that have been the most competitive over the last few weeks, and these will be contacted for a bid. Documentation will be retained for all bids/offers, with the winning bid/offer clearly identified. If for any reason, the best bid/offer was not selected, then the reasons leading to that decision will be clearly indicated on the bidding forms.

After the Chief Deputy of Finance or Finance Director or her/his designee, or Treasury Management staff has determined the approximate maturity or Effective Duration, based on cash flow needs and market conditions, and has identified the optimal security type(s), a minimum of three banks or dealers must be contacted to ask for an indicative bid/offering of securities that fit the investment criteria.

The competitive bidding policy may be waived for a potential purchase or sale of certain securities due to market availability (supply and demand). Under these circumstances, the Comptroller or Chief Deputy of Finance or Finance Director or her/his designee must approve the transaction. In addition, securities which trade in a quoted market are exempt from the competitive bidding process but must adhere to the documentation process. Securities that can be traded at prices better than their valuation price, as provided by an independent third party, are also exempt from competitive bidding; but again, documentation confirming a purchase or sale within the quoted market must be maintained.

The Comptroller or Chief Deputy of Finance or Finance Director or her/his designee must approve any investment entered into without a bid.

h. Diversification of Portfolio

Prudent investing necessitates that the portfolio be diversified as to instruments and dealers.

To allow efficient and effective placement of proceeds from bond sales, the limit on Repurchase Agreements may be exceeded for a maximum of thirty (30) business days following the receipt of bond proceeds, on the direction of the Comptroller, or Chief Deputy of Finance or Finance Director or her/his designee.

i. Written Repurchase Agreements

All Repurchase Agreements must be in written form using the Public Securities Association (PSA) Master Repurchase Agreement as a guide. Annex 1 of this guide shall materially conform to the recommendations by the Government Finance Officers Association. Agreements not substantially conforming to this Master and Annex 1 are unacceptable.

2. Reducing Interest Rate Risk

Generally, the longer the maturity of a particular investment, the greater its price volatility. The County seeks to limit interest rate risk by maintaining the maturities of its investment portfolio in short-term investments. Maturity guidelines are established below.

i. Pooled Cash and Investments (with no restrictions):

No security shall have a maturity exceeding five (5) years. The weighted average to maturity for the portfolio shall be less than two (2) years.

All Collateralized Mortgage Obligations are required to pass the FFIEC Test at the time of purchase and annually thereafter.

ii. Restricted Accounts:

Unless otherwise stipulated, the Restricted Account's securities will have a maximum maturity consistent with the nature of the restricted accounts.

B. Policies to Ensure Adequate Liquidity

1. Maintenance of Liquidity Base

A liquidity base of approximately two (2) months of anticipated disbursements, excluding bond construction payments or other bond payments made from escrow or trust accounts, will be kept in relatively short-term investments. These would include funds on deposit in the County's depository account, investments in a stable NAV Florida Local Government Investment Pool, Repurchase Agreements and other investments maturing in less than one (1) year.

2. <u>Maximum Maturity on Repurchase Agreement</u>

The maximum maturity for any single Repurchase Agreement, except for the daily Repurchase Agreement with the concentration bank, will be one (1) year.

3. <u>Purchase Securities with Active Secondary Market</u>

Many securities are legally authorized but are not sufficiently liquid to maintain compliance with the requirements of the Policy. Accordingly, although investments may be on the authorized list, only those securities with an active secondary market may be purchased from that list.

C. <u>Policies to Achieve Investment Return Objectives</u>

1. <u>Portfolio Maturity Management</u>

When structuring the maturity composition of the portfolio, it is the policy of the County to evaluate current and expected interest rate yields by evaluating general economic conditions. If interest rates are expected to increase in the near future, actions may be taken by the Treasury Management staff to shorten the portfolio's Effective Duration. Accordingly, if interest rates are expected to decrease, actions may be taken by the Treasury Management staff to lengthen the portfolio's Effective Duration. Specific procedures for evaluating general economic conditions shall be incorporated into the Investment Procedures.

2. <u>Reallocations of Securities</u>

The County shall reallocate securities as opportunities to do so present themselves over the term of any investment. The following reallocations are considered appropriate for the County:

a. Reallocations to Increase Yield

Market aberrations are often caused by supply and demand conditions for particular securities. For example, if a short supply exists for a particular maturity range, then it may be advantageous to sell the security in a short supply and purchase another similar security in a different maturity range.

b. Reallocations to Reduce Maturity

Market aberrations occasionally create a situation where longer maturity securities are yielding the same or less than securities with a shorter maturity. Portfolio quality can be improved by selling the longer maturity security and purchasing the shorter maturity with little or no impact on portfolio performance.

c. Reallocations to Increase Portfolio Quality

Market aberrations occasionally create a situation where certain higher risk securities yield the same or less than an equivalent lower risk security. Portfolio quality can be improved by selling the higher risk security and purchasing a lower risk security with little or no impact on portfolio performance.

Temporary accounting losses on reallocations can be incurred provided the loss is more than offset by the improvement in quality, shortening of duration or increasing yield.

3. Performance Measurement

To assist to assist in the evaluation of the portfolio's performance relative to an acceptable level of risk, the Treasury Management Staff shall use a performance benchmark. The most comparable duration asset to the market cycle duration of the portfolio is the 2-year U.S. Treasury. To measure the appropriate income or yield for the County's investment portfolio, the Treasury Management Staff will benchmark the aggregate portfolio yield against the 24-month rolling average yield of the 2-year constant maturity U.S. Treasury.

D. Policies to Ensure Ethical and Prudent Action

1. Establishment of Internal Controls

It is the policy of the County to establish a system of internal controls, which shall be in writing. The internal controls shall address the following points:

a. Control of collusion

Collusion is a situation where two or more employees are working in conjunction to defraud their employer or gain something illegally.

b. Separation of functions

Separation of key functions provides the County the ability to prevent fraud and errors by disseminating tasks and associated privileges among multiple employees.

c. Separation of transaction authority from accounting and record keeping

d. Custodial safekeeping

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

e. Avoidance of bearer-form securities

f. Avoidance of physical delivery securities

g. Third-Party acknowledgement

Any monies managed on behalf of Manatee County will adhere to the current investment policy and ordinance.

h. Clear delegation of authority to subordinate staff members

Subordinate staff members 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.

i. Specific limitations regarding securities losses and remedial action

Securities losses may be necessary to implement this Investment Policy. These losses should be restricted to specified purposes and proper documentation and required approval should be clearly defined for each staff person.

j. Written confirmation of telephone transactions for investments and wire transfers

Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be documented in writing immediately following the telephone transaction, and such documentation shall be approved and maintained by the appropriate person.

k. Documentation of transactions and strategies

All transactions and the strategies that may have been used to develop the transactions should be documented in writing and approved and maintained by the appropriate person.

l. Development of a wire transfer agreement with the depository bank as it relates to the overall banking agreement

This agreement should outline the various controls and security provisions for making and receiving wire transfers.

m. Investigation and due diligence of government sponsored pools and/or mutual funds

The due diligence of pools/funds shall be fully investigated and documented. Procedures for evaluating pools and funds shall be incorporated into the Investment Procedures.

2. <u>Investment Report</u>

The Comptroller will provide periodic reports, at least annually, to the Board of County Commissioners regarding the status of the investments purchased and held. This report will include, but not be limited to securities in the portfolio by class or type, book value, income earned, and market value as of report date.

Market conditions may, from time to time, negatively impact the underlying securities in the portfolio. Any violations of the investment policy shall be immediately reported to the Comptroller upon their discovery. For example, if an existing security experiences a change that would preclude it from being purchased, a downgrade in the bond's credit rating or an extension in its Effective Duration beyond that allowed by the Investment Policy Statement, the Comptroller, in consultation with the Chief Deputy of Finance or Finance Director or her/his designee and Treasury Management staff, may decide to continue to hold or sell the security. In the event the security is to remain in the portfolio, it will be added to a "Security Watch List" report with the rationale for continuing to hold the security.

3. <u>Training and Education</u>

It is the policy of the County to provide for the continuing education of the investment officials responsible for making investment decisions. The Comptroller, or Chief Deputy of Finance or Finance Director or her/his designee, Treasury Management Staff, and any other officials responsible for making investment decisions, shall annually complete no less than eight (8) hours of continuing education in subjects or courses of study related to investment practices and products, in accordance with Section

218.415 (14), Florida Statues.

IV. GLOSSARY OF TERMS

The following is a glossary of terms, some of which appear in this policy. This glossary clarifies the meaning of investment terms generally used in cash and investment management but does not constitute allowable investments which are specified in Section III.

ACCRUED INTEREST: Interest earned but which has not yet been paid or received.

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

AMORTIZATION: The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

ASKED: The price at which securities are offered.

ASSET-BACKED SECURITY (ABS): A fixed-income security backed by notes or receivables against assets other than real estate. Some examples are autos, credit card receivables, and royalties.

BASIS POINT: A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid). See "Offer."

BOOK VALUE: The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

BROKER: A third party that brings buyers and sellers together for a commission.

CALLABLE BONDS/NOTES: Securities which contain an imbedded call price option giving the issuer the right to redeem the securities prior to maturity at a predetermined price and time.

CALL PRICE: The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

CALL RISK: The risk to a bondholder that a bond may be redeemed prior to maturity.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure 13 repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER (CP): A short-term unsecured promissory note issued by corporations typically used as a source of working capital, receivables financing and other short-term financing needs. CP has maturities up to 270 days.

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): The official annual financial report for a governmental entity. It includes combined statements for each individual fund and account group prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America for governmental entities. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

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.

COUPON RATE: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value, (b) A certificate attached to a bond evidencing interest due on a payment date.

CREDIT QUALITY: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized statistical rating organization.

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT (DVP): There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (a) 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 (b) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g., U.S. Treasury Bills).

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

FARMER'S HOME ADMINISTRATION (FmHA): A unit of the Department of Agriculture which makes loans for community centers, farms, and homes in rural areas.

FAIR VALUE: The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, up to $250,000 per deposit. (note: see FLORIDA SECURITY FOR PUBLIC DEPOSIT ACT).

FEDERAL FARM CREDIT BANKS (FFCB): The Federal Farm Credit Banks Funding Corporation issues debt securities as fiscal agent for the Farm Credit System, which is a nationwide network of borrower-owned lending institutions and service organizations specializing in agricultural and rural America. The mission of this government-sponsored enterprise is to ensure the availability of sound, dependable funding for agricultural producers, cooperatives, and certain farm related business.

FEDERAL FINANCING BANK: A government-owned bank created to reduce the costs of federal agencies through government-guaranteed obligations.

FEDERAL FUNDS (FED FUNDS): Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirement. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): FHLMC, commonly referred to as Freddie Mac, is a government sponsored enterprise that provides liquidity to the mortgage markets, much like FNMA and FHLB.

FEDERAL HOUSING ADMINISTRATION (FHA): A federally sponsored agency that insures lenders against loss on residential mortgages. Founded in 1934, it was the forerunner of a group of government agencies responsible for the growing secondary market for mortgages (GNMA & FNMA).

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The Corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The president of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA): A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

FLORIDA LOCAL GOVERNMENT INVESTMENT POOL (LGIP): An investment medium (e.g. FLGIT, FLCLASS) created under F.S 163.01 providing local government an investment alternative to the Local Government Surplus Fund Trust Fund.

FLORIDA LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND: The aggregate of all funds from political subdivisions that are placed in the custody of the State Board of Administration for investment and reinvestment.

FLORIDA SECURITY FOR PUBLIC DEPOSITS ACT: Chapter 280, Florida Statutes establishes a statewide "pool" program ensuring the protection from financial institution failure of public deposits of the state and its political subdivisions not covered by federal deposit insurance. All qualified public depositories are required to meet certain collateral requirements established by the Chief Financial Officer of the State of Florida.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

INTEREST RATE: See "Coupon Rate."

INTEREST RATE RISK: The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

INVERTED YIELD CURVE: A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and restrictive monetary policy.

INVESTMENT COMPANY ACT OF 1940: Federal legislation which 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 OBLIGATIONS: An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

ISSUER LIMITATION: The issuer limitation percent shown in the “summary of key limitations on authorized investments” table is based on the total portfolio balance.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LIQUIDITY RISK: The risk that a liquid asset cannot be converted without a substantial loss of value or earnings.

MARK-TO-MARKET: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

MARKET RISK: The risk that the value of a security will rise or decline as a result of changes in market conditions.

MARKET VALUE: The price at which a security is trading and could presumable be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreement that establishes each party’s rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

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

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers’ acceptances, repos and federal funds) are issued and traded.

MONEY MARKET FUND: Funds that invest solely in money market instruments, such as: US Treasury bills, commercial paper, bankers’ acceptances, and repurchase agreements.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): A federally recognized credit rating agency approved by the United States Securities and Exchange Commission, and provides an assessment of creditworthiness.

NOMINAL YIELD: The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate." OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the 17 open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool. PAR: Face value or principal value of a bond, typically $1,000 per bond.

PASSIVE INVESTMENT STRATEGY: Passive investment management is an investment strategy in which securities are bought with the intention of holding them to maturity or investing in benchmark products designed to yield a market rate of return.

PORTFOLIO: Collection of securities held by an investor.

POSITIVE YIELD CURVE: A chart formation that illustrates short-term securities having lower yields than long-term securities.

PREMIUM: The amount by which the price paid for a security exceeds the security's par value.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRIME RATE: A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

PRINCIPAL: The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

PRUDENT PERSON RULE: An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

QUALIFIED PUBLIC DEPOSITORY: Any bank, savings bank, or savings association that is organized under the laws of the United States or the State of Florida; has its principal place of business or a branch office to receive deposits in Florida; has deposit insurance under the provisions of the Federal Deposit Insurance Act; meets the requirements of Chapter 280, Florida Statutes (Florida Security for Public Deposits Act); and has been designated by the Chief Financial Officer of the State of Florida as a qualified public depository.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

REINVESTMENT RISK: The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

REPURCHASE AGREEMENT (REPO or RP): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities a specified price to the second party on demand or at a specified date.

RULE 2a-7 OF THE INVESTMENT COMPANY ACT: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a maximum weighted average maturity of 60- days, to help maintain a constant net asset value of one dollar ($1.00).

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation. SEC RULE 15C3-1: See Uniform Net Capital Rule

SERIAL BOND: A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

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.
SLGS: Nonmarketable US Treasury securities sold to states and municipalities. These parties then deposit the securities into escrow accounts until they use them to pay off their own bonds at maturity.

SPREAD: (a) The yield or price difference between the bid and offer on an issue. (b) The yield or price difference between different issues.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

STUDENT LOAN MARKETING ASSOCIATION (SLMA): SLMA, commonly referred to as Sallie Mae, provides federally guaranteed student loans originated under the Federal Family Education Loan Program. Congress created Sallie Mae in 1972 as a government sponsored enterprise. Sallie Mae began privatizing its operations in 1997 and completely severed its ties to the federal government in 2004.

TERM BOND: Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

TREASURY BILLS: A non-interest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY STRIPS: Zero-coupon Treasury bonds that mature in three months to 29 years and are backed 19 by the full faith and credit of the US government.

TREASURY BONDS: Long-term coupon bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicated. Liquid capital includes cash and assets easily converted into cash.

WEIGHTED AVERAGE MATURITY: The average remaining term to maturity of the portfolio proportionate to the size of each investment.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

YIELD-TO-CALL (YTC): The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

YIELD CURVE: A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

YIELD-TO-MATURITY: The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

ZERO-COUPON SECURITIES: Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.