SCHOOL BOARD OF BREVARD COUNTY, FLORIDA

School Board Policy Executive Summary

Form D

Policy Number:	6144
Title of Policy:	Investments
Cabinet Member:	Cynthia Lesinski, Chief Financial Officer
Purpose of Revisions:	The purpose of the proposed revision to the policy is to ensure compliance to applicable laws, Florida administrative code, the District code of ethics, and industry best practices with regard to investments. This revision also promotes transparency and clarity.
Tentative Schedule:	• Cabinet – March 29, 2021 • Work Session – April 27, 2021 • Rule Development Workshop – May 11, 2021 • School Board Meeting (information) – May 11, 2021 • School Board Meeting (approval) – May 25, 2021 • Effective Date – upon approval
Summary of Proposed Policy Revisions:	This policy is being revised to: • Update formatting and technical language • Add verbiage to prudent assessment of investments with regard to any investment issuer's history of non-compliance with state or federal law or the District's ethical standards • Comply with law §§ 218.415 (added two sections: Risk and Diversification, Master Repurchase Agreement) • Update allowable allocation percentages and permitted investments by sector and by issuer due to changes in the market since last policy revision • Adding Attachment A – Glossary of Cash and Investment Management Terms; to be repealed from administrative procedures • Adding Attachment B – Investment Pool/Fund Questionnaire
Specific Authority:	§§ 1001.41, 1001.42, 1001.43, 1010.01, 1011.09, 1011.18, 163.01, 215.85, 218.415 and F.A.C. 6A-1.0012
Next Steps:	• Revisions to internal procedures and other investment planning tools • Training and communication for District employees regarding revisions to policy and revised procedures

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6144 - INVESTMENTS

PURPOSE

The purpose of this policy is to set forth the investment objectives and parameters for the management of public funds of the School Board of Brevard County, Florida (hereinafter "Board"). These policies are 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.

SCOPE

In accordance with F.S. 218.415, this investment policy applies to all cash and investments held or controlled by the Board with the exception of pension funds, trust 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 Education) are not subject to the provisions of this policy.

INVESTMENT OBJECTIVES

A. **Safety of Principal**

The foremost objective of this investment program is the safety of the principal of those funds within the portfolios. Investment transactions shall seek 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.

B. **Maintenance of Liquidity**

The portfolios 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 positioned to provide sufficient liquidity.

C. **Return on Investment**

Investment portfolios shall be designed to attain 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. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

DELEGATION OF AUTHORITY

The responsibility for providing oversight and direction in regard to the management of the investment program resides with the Board's Associate Superintendent for Financial Services. The daily management responsibility for all Board funds in the investment program and investment transactions is delegated to the Director of Accounting Services. The Associate Superintendent for Financial Services and the Director of Accounting Services shall establish written procedures for the operation of the investment portfolio and a system of internal accounting and administrative controls to regulate the activities of employees. The Board may employ an investment manager to assist in managing some of the Board's portfolios. Such investment manager must be registered under the Investment Advisors Act of 1940. The investment manager will act in a fiduciary capacity to the District.

STANDARDS OF PRUDENCE

The standard of prudence to be used by investment officials shall be the "Prudent Person" standard and shall be applied in the context of managing the overall investment program. Investment officers 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 to the Associate Superintendent for Financial Services in a timely fashion 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 investment officials 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 contractor 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.

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 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 investment program.

INTERNAL CONTROLS AND INVESTMENT PROCEDURES

The Associate Superintendent for Financial Services and the Director of Accounting Services shall establish a system of internal controls and operational procedures that are in writing and made a part of the Board'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, repurchase agreements, separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. No person may engage in an investment transaction except as authorized under the terms of this policy.

Independent auditors as a normal part of the annual financial audit to the Board shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

CONTINUING EDUCATION

The Associate Superintendent for Financial Services, the Director of Accounting Services and other supporting staff shall each annually complete eight (8) hours of continuing education in subjects or courses of study related to investment practices and products.

AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

Authorized Board staff and investment advisors shall only purchase securities from financial institutions, which are qualified as public depositories by the Treasurer of the State of Florida, or institutions designated as "primary securities dealers" by the Federal Reserve Bank of New York.

Authorized Board staff and investment advisors shall only enter into repurchase agreements with financial institutions that are state qualified public depositories and primary securities dealers as designated by the Federal Reserve Bank of New York.

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, but in no event shall exceed five (5) years.

The maturities of the underlying securities of a repurchase agreement will follow the requirements of the Master Repurchase Agreement.

COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

After the Director of Accounting Services along with appropriate staff (designee) or the investment advisor 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) qualified banks and/or approved broker/dealers must be contacted and asked to provide bids/offers on securities in question~~s~~. Bids will be held in confidence until the bid deemed to best meet the investment objectives is determined and selected.

However, if obtaining bids/offers are not feasible and appropriate, securities may be purchased utilizing the comparison to current market price method on an exception basis. Acceptable current market price providers include, but are not limited to:

A. Telerate Information System

B. Bloomberg Information Systems

C. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing

D. Daily market pricing provided by the Board's custodian or their correspondent institutions

The Director of Accounting Services along with appropriate staff (designee)or the investment advisor shall utilize the competitive bid process to select the securities to be purchased or sold. Selection by comparison to a current market price, as indicated above, shall only be utilized when, in judgment of the Director of Accounting Services along with appropriate staff (designee) or the investment advisor, 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 Board's depository bank relating to the demand account for which the repurchase agreement was purchased.

AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION

Investments should be made subject to the cash flow needs; 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, the Director of Accounting Services and/or the Associate Superintendent for Financial Services along with appropriate staff (designee) may sell the investment at the then-prevailing market price and place the proceeds into the proper account held by the Board's custodial bank.

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the Board. The Associate Superintendent for Financial Services or the Director of Accounting Services along with appropriate staff (designee) shall have the option to further restrict investment percentages from time to time based on market conditions, risk and diversification investment strategies. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment. Investments not listed in this policy are prohibited. All investments shall be in U.S. dollars only.

A. United States Government Securities

1. Purchase Authorization

The Director of Accounting Services along with appropriate staff (designee) 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:

Cash Management Bills

Treasury Securities – State and Local Government Series ("SLGS")

Treasury Bills

Treasury Notes

Treasury Bonds

Treasury Strips

2. Portfolio Composition

A maximum of 100% of available funds may be invested in the United States Government Securities.

3. Maturity Limitations

The maximum length to maturity of any direct investment in the United States Government Securities is five (5) years from the date of purchase.

B. United States Government Agencies

1. Purchase Authorization

The Director of Accounting Services along with appropriate staff (designee) may invest in bonds, debentures, notes or callables issued or guaranteed by the United States governments 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 fifty percent (50%) of available funds may be invested in United States government agencies.

3. Limits on Individual Issuers

A maximum of twenty-five percent (25%) of available funds may be invested in individual United States government agencies.

4. Maturity Limitations

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

C. Federal Instrumentalities (United States government sponsored agencies)

1. Purchase Authorization

The Director of Accounting Services along with appropriate staff (designee) may invest in bonds, debentures, notes or callables issued or guaranteed by United States government sponsored agencies (Federal instrumentalities) which are non-full faith and credit agencies limited to the following:

Federal Farm Credit Bank (FFCB)

Federal Home Loan Bank or its district banks (FHLB)

Federal National Mortgage Association (FNMA)

Federal Home Loan Mortgage Corporation (Freddie-Macs)

Federal Home Loan Mortgage Corporation participation certificates

2. Portfolio Composition

A maximum of eighty percent (80%) of available funds may be invested in Federal instrumentalities.

3. Limits on Individual Issuers

A maximum of forty percent (40%) of available funds may be invested in any one issuer.

4. Maturity Limitations

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

D. Interest Bearing Time Deposit or Saving Accounts

1. Purchase Authorization

The Director of Accounting Services along with appropriate staff (designee) 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 the State of Florida, provided that any such deposits are secured by the Florida Security for Public Deposits Act, F.S. Chapter 280. Additionally, the bank shall not be listed with any recognized credit watch information service.

2. Portfolio Composition

A maximum of twenty-five percent (25%) of available funds may be invested in non-negotiable interest bearing time certificates of deposit.

3. Limits on Individual Issuers

A maximum of fifteen percent (15%) of available funds may be deposited with any one issuer.

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

E. Repurchase Agreements

1. Purchase Authorization

   a. The Director of Accounting Services along with appropriate staff (designee) may invest in repurchase agreements composed of only those investments based on the requirements set forth by the District's master repurchase agreement. All firms are required to sign the master repurchase agreement prior to the execution of a repurchase agreement transaction.

   b. A third party custodian with whom the District has a current custodial agreement shall hold the collateral for all repurchase agreements with a term longer than one (1) business day. A clearly marked receipt that shows evidence of ownership must be supplied to the Director of Accounting Services and retained until maturity of the repurchase agreement.

   c. Securities authorized for collateral are negotiable direct obligations of the United States government, government agencies, and Federal instrumentalities with maturities under five (5) years and must have a market value for the principal and accrued interest of 102% of the value and for the term of the repurchase agreement. Immaterial short-term deviations from 102% requirement are permissible only upon the approval of the Director of Accounting Services along with appropriate staff (designee).

2. Portfolio Composition

   A maximum of fifty percent (50%) of available funds may be invested in repurchase agreements excluding one (1) business day agreements and overnight sweep agreements.

3. Limits on Individual Issuers

   A maximum of twenty-five percent (25%) of available funds may be invested with any one institution.

4. Limits on Maturities

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

F. Commercial Paper

1. Purchase Authorization

The Director of Accounting Services along with appropriate staff (designee) may invest in commercial paper of any United States company that is rated, at the time or purchase, "Prime-1" by Moody’s and "A-1" by Standard & Poor’s (prime commercial paper). If the commercial paper is backed by a letter of credit ("LOC"), the long-term debt of the LOC provider must be rated "A" or better by at least two (2) nationally recognized rating agencies.

2. Portfolio Composition

A maximum of thirty-five percent (35%) of available funds may be directly invested in prime commercial paper.

3. Limits on Individual Issuers

A maximum of ten percent (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.

G. Bankers’ Acceptances

1. Purchase Authorization

The Director of Accounting Services along with appropriate staff (designee) may invest in Bankers’ acceptances issued by a domestic bank or a Federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, at the time or purchase, the short-term paper is rated, at a minimum, "P-1" by Moody's Investors Services and "A-1" by Standard & Poor's.

2. Portfolio Composition

A maximum of thirty-five percent (35%) of available funds may be directly invested in Bankers’ acceptances

3. Limits on Individual Issuers

A maximum of ten percent (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.

H. Corporate Notes

1. Purchase Authorization

The Director of Accounting Services 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 A3 by Moody's and a minimum long-term debt rating of A- by Standard & Poor's.

2. Portfolio Composition

A maximum of twenty percent (20%) of available funds may be directly invested in corporate notes.

3. Limits on Individual Issuers

A maximum of five percent (5%) of available funds may be invested with any one issuer.

4. Maturity Limitations

The maximum length to maturity for corporate notes shall be three (3) years from the date of purchase.

I. State and/or Local Government Taxable and/or Tax-Exempt Debt

1. Purchase Authorization

The Director of Accounting Services along with appropriate staff (designee) may invest in state and/or local government taxable and/or tax-exempt debt, general obligation and/or revenue bonds, rated at least "Aa3" by Moody's and "AA-" by Standard & Poor's for long-term debt, or rated at least "VMIG2" or "MIG-2" by Moody's and "A-2" by Standard & Poor's for short-term debt.

2. Portfolio Composition

A maximum of twenty percent (20%) of available funds may be invested in taxable and tax-exempt debts.

3. Maturity Limitations

A maximum length to maturity for an investment in any state or local government debt security is three (3) years from the date of purchase.

J. Registered Investment Companies (Mutual Funds)

1. Investment Authorization

The Director of Accounting Services along with appropriate staff (designee) may invest in shares in open-end, no-load funds provided such funds are registered under the Federal Investment Company Act of 1940 and operated in accordance with 17 C.F.R. 270.2a-7. In addition, the Director of Accounting Services along with appropriate staff (designee) may investment in other types of mutual funds provided such funds are registered under the Federal Investment Company Act of 1940, invest exclusively in the securities specifically permitted under this investment policy, and are similarly diversified.

2. Portfolio Composition

A maximum of seventy-five percent (75%) of available funds may be invested in mutual funds.

3. Limits of Individual Issuers

A maximum of twenty-five percent (25%) of available funds may be invested with any one non-SEC Rule 2a-7 investment mutual fund.

4. Rating Requirements

The mutual funds shall be rated "AAAm" by Standard & Poor's, or the equivalent by another rating agency.

5. Due Diligence Requirements

A thorough review of any investment mutual fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed by the Director of Accounting Services along with appropriate staff (designee) that will contain a list of questions that covers the major aspects of any investment pool/fund.

K. Intergovernmental Investment Pools

1. Investment Authorization

The Director of Accounting Services along with appropriate staff (designee) may invest in intergovernmental investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in F.S. 163.01, and provided that said funds contain no derivatives.

2. Portfolio Composition

A maximum of twenty-five percent (25%) of available funds may be invested in intergovernmental investment pools.

3. Rating Requirements

The investment pool shall be rated "AAAm" by Standard & Poor's or the equivalent by another rating agency.

4. Due Diligence Requirements

A thorough review of any investment pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed by the Director of Accounting Services along with appropriate staff (designee) that will contain a list of questions that covers the major aspects of any investment pool/fund.

DERIVATIVES AND REVERSE REPURCHASE AGREEMENTS

Investment in any derivative products or the use of reverse repurchase agreements requires specific Board approval at a formal Board meeting prior to their use. If the Board approves the use of derivative products, the Associate Superintendent for Financial Services and the Director of Accounting along with appropriate staff (designee) shall develop sufficient understanding of the derivative products and have the expertise to manage them. 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. If the Board approves the use of reverse repurchase agreements or other forms of leverage, the investment shall be limited to transactions in which the proceeds are intended to provide liquidity and for which the Associate Superintendent for Financial Services and the Director of Accounting along with appropriate staff (designee) have sufficient resources and expertise to manage them.

PERFORMANCE MEASUREMENTS

In order to assist in the evaluation of the portfolio's performance, the Board will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks will allow the Board to measure its returns against other investors in the same markets.

A. The United States 91-Day Treasury Bill yield will be used as a benchmark as compared to the portfolios' net book value rate of return for current operating funds.

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 an index comprised of U.S. Treasury or Government securities. 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 portfolio's total rate of return.

C. Investment advisors will report performance on both book value and total rate of return basis and compare results to the above-stated benchmarks.

REPORTING

The Associate Superintendent for Financial Services and the Director of Accounting Services along with appropriate staff (designee) or the investment advisor shall provide the Board 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

D. average life or duration and final maturity of all investments

E. par value~~,~~ and market value

On an annual basis, the Associate Superintendent of Financial Services and the Director of Accounting Services along with appropriate staff (designee) or the investment advisor 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.

THIRD-PARTY CUSTODIAL AGREEMENTS

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 F.S. 658.12, 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 custodian shall accept transaction instructions only from those persons who have been duly authorized by the Associate Superintendent for Financial Services 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, except by such a duly authorized person.

The custodian shall provide the District with safekeeping receipts that provide detailed 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.

INVESTMENT POLICY ADOPTION

The investment policy shall be adopted by Board resolution. The Associate Superintendent for Financial Services and the Director of Accounting Services along with appropriate staff (designee) shall review the policy annually and the Board shall approve any modification made thereto. A glossary of investment terms and internal control procedures will be kept on file in the Department of Accounting Services.

F.S. 1001.42, 1011.18
F.A.C. 6A-1.085

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6144 - **INVESTMENTS**

PURPOSE

The purpose of this policy is to set forth the investment objectives and parameters for the management of public funds of the School Board. These policies are designed to enable 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.

SCOPE

In accordance with F.S. 218.415, this investment policy applies to all cash and investments held or controlled by the Board with the exception of pension funds, trust 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 Education) are not subject to the provisions of this policy.

DEFINITIONS

A. "Available monies" means all monies available for investment exclusive of debt proceeds.

B. "CFO" means the Chief Financial Officer (or successor in the event of a reorganization) of the District.

C. "Core funds" means reserves, cash designated for projects and other operating and non-operating purposes which are not debt proceeds and are not expected to be expended within the immediately succeeding twelve (12) months.

D. "Debt proceeds" means monies that are the proceeds of an issuance of a debt or lease financing.

E. "Fund" means a pooled investment operated by a professional investment company.

F. "Money fund index" means weighted average return on nation's largest money funds as reported by iMoneyNet, Crane Data, or other nationally recognized money fund ranking service.

G. "Monies" means cash and deposits available to the Board.

H. "Portfolio" means investments held by the Board.

I. "Rating agency" means S&P, Moody's or Fitch.

J. "Self insurance funds" means monies set aside to pay for specific needs in the future based on actuarial assumptions.

K. "Short-term funds" means operating funds or other monies designated to be spent within twelve (12) months.

INVESTMENT OBJECTIVES

The investment objectives of the Board, in order of priority, are as follows:

A. <u>Safety of Principal</u>

The foremost objective of this investment program is the safety of the principal of those funds within the portfolios. Investment transactions shall seek 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.

B. <u>Maintenance of Liquidity</u>

The portfolios 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 positioned to provide sufficient liquidity.

C. Diversification of Risk

The investment of Board funds shall be diversified whenever possible without negatively affecting the safety of principal and liquidity characteristics. Investment transactions shall seek to keep capital losses at a minimum, whether they are from securities defaults or erosion of market value. To attain this objective, diversification is a requirement so potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

RETURN OF INVESTMENT

Investment portfolios 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. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

DELEGATION OF AUTHORITY

The Superintendent is authorized to make transfers from financial institution to financial institution or within a financial institution for the purpose of investing or divesting District funds. For the purposes of this policy, the term "financial institution" has the same definition of F.S. 280.02(13).

The Superintendent is authorized and empowered for and on behalf of the Board, to conduct investment transactions in accounts at financial institutions as provided under Authorized Investment Institutions and Dealers, and conduct other banking/financial transactions in financial institutions designated as Qualified Public Depositories (QPD) in accordance with F.S. 280.02(26).

Accounts at said institutions shall be established by signatures of both the superintendent and the CFO. These transactions may be facilitated by electronic fund transfers pursuant to ( ) Policy 6107V1 - Authorization to Accept and Distribute Electronic Records, to Use Electronic Signature, and to Make Electronic Fund Transfers/( ) Policy 6107V2 - Acceptance and Distribution of Electronic Records and Use Electronic Signatures Prohibited.

The Superintendent shall develop administrative procedures that govern and safeguard the establishment of services, and the execution and conduct of investment/banking/financial transactions to, from, and between District accounts consistent with this policy.

Appropriate fidelity bonding will be maintained by the District to cover the Superintendent and other designated staff members who are in any way involved in the movement of District funds from one (1) financial institution account to another.

The Superintendent may employ an investment manager/advisor to assist in the management of the District's investments.

STANDARDS OF PRUDENCE

The standard of prudence to be used by investment officials shall be the "Prudent Person" standard and shall be applied in the context of managing the overall investment program. Investment officers 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 to the _______________________________________ in a timely fashion 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 investment officials 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 contractor 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.

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 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 investment program.

INTERNAL CONTROLS AND INVESTMENT PROCEDURES

The ____________________________________ shall establish a system of internal controls and operational procedures that are in writing and made a part of the Board'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, repurchase agreements, separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts, and collateral/depository agreements. No person may engage in an investment transaction except as authorized under the terms of this policy.

Independent auditors as a normal part of the annual financial audit to the Board shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

CONTINUING EDUCATION

The ____ and other appropriate staff shall annually complete _____ hours of continuing education in subjects or courses of study related to cash management and/or investment practices and products.

AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

Authorized Board staff and investment advisors shall only purchase securities from financial institutions, which are qualified as public depositories by the Treasurer of the State of Florida, institutions designated as "Primary Securities Dealers" by the Federal Reserve Bank of New York, or such other financial institutions approved by the Superintendent with appropriate subsequent notification to the Board.

Investments authorized under the <u>Authorized Investments and Portfolio Composition</u> section below are an exception to this requirement.

Authorized Board staff and investment advisors shall only enter into repurchase agreements with financial institutions that are State qualified public depositories and primary securities dealers as designated by the Federal Reserve Bank of New York.

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. The maximum maturity listed for individual securities under <u>Authorized Investment in Portfolio Composition</u> below notwithstanding, the maximum maturity of investments shall be limited as follows:

A. Investments of current operating short-term funds shall have maturities of no longer than twenty-four (24) months.

B. 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 (5) years.

In the case of monies that are construction proceeds of tax-exempt debt issues, such investments shall not exceed the shorter of three (3) years or the projected project completion date for which they are invested.

The maturities of the underlying securities of a repurchase agreement will follow the requirements of the master repurchase agreement.

COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

When appropriate, feasible, and practicable, the purchase and sale of investment securities shall be competitively bid. Documentation will be retained for all bids, with the winning bid clearly identified. The competitive bid requirement does not apply to investments authorized under Authorized Investments and Portfolio Composition below, or to the purchase of specific investment securities held by a limited number of dealers, or in situations where a competitive bid will not result in a lower price to the District.

After the __________________________ or the ________________________________ 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) qualified banks and/or approved broker/dealers must be contacted and asked to provide bids/offers on securities in questions. Bids will be held in confidence until the bid deemed to best meet the investment objectives is determined and selected.

However, if obtaining bids/offers are not feasible and appropriate, securities may be purchased utilizing the comparison to current market price method on an exception basis. Acceptable current market price providers include, but are not limited to:

A. Telerate Information System

B. Bloomberg Information Systems

C. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing

D. Daily market pricing provided by the Board's custodian or their correspondent institutions

The ____ or the ____ shall utilize the competitive bid process to select the securities to be purchased or sold. Selection by comparison to a current market price, as indicated above, shall only be utilized when, in judgment of the Director of Accounting Services or the investment advisor, 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 Board's depository bank relating to the demand account for which the repurchase agreement was purchased.

AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION

Investments should be made subject to the cash flow needs, 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, the _______________________________ 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 investment requirements and allocation limits on security types, issuers, and maturities as established by the Board. The ________________________________ or the ___________________________ shall have the option to further restrict investment percentages from time to time based on market conditions, risk, and diversification investment strategies. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment and the amount of available monies at the time investments are entered into. Investments not listed in this policy are prohibited.

A. The Florida Local Government Surplus Funds Trust Fund ("SBA")

1. Investment Authorization

The ____________________________ may invest in the SBA.

2. Portfolio Composition

The _______________________________ will determine the composition of this portfolio for this type of investment.

Rating Requirements: Eligible pools shall be rated "AAAm" or "AAAm-G" or better by Standard & Poor's, or the equivalent by another rating agency.

B. United States Government Securities

1. Purchase Authorization

The ______________________________ 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:

Cash Management Bills
Treasury Securities
Treasury Bills
Treasury Notes
Treasury Bonds
Treasury Strips

2. Portfolio Composition

The ___________________________ will determine the composition of this portfolio for this type of investment.

3. Maturity Limitations

The maximum length to maturity of any direct investment in the United States Government Securities is five (5) years from the date of purchase.

C. United States Government Agencies

1. Purchase Authorization

The _______________________________ may invest in bonds, debentures, notes or callables issued or guaranteed by the United States Governments 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
- 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

The ____________________________ will determine the composition of this portfolio for this type of investment.

3. Limits on Individual Issuers

A maximum of twenty-five percent (25%) of available funds may be invested in individual United States Government agencies.

4. Maturity Limitations

The maximum 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)

1. Purchase Authorization

The __________________________________ may invest in bonds, debentures, notes or callables issued or guaranteed by United States Government sponsored agencies (Federal instrumentalities) which are non-full faith and credit agencies limited to the following:

Federal Farm Credit Bank (FFCB)
Federal Home Loan Bank or its district banks (FHLB)
Federal National Mortgage Association (FNMA)
Federal Home Loan Mortgage Corporation (Freddie-Macs) including Federal - Home Loan Mortgage Corporation participation certificates
Student Loan Marketing Association (Sallie-Mae)

2. Portfolio Composition

The _____________________ will determine the composition of this portfolio for this type of investment.

3. Limits on Individual Issuers

A maximum of forty percent (40%) of available funds may be invested in any one issuer.

4. Maturity Limitations

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

E. Interest Bearing Time Deposit or Saving Accounts

1. Purchase Authorization

The _________________________ 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 the State of Florida, provided that any such deposits are secured by the Florida Security for Public Deposits Act, F.S. Chapter 280. Additionally, the bank shall not be listed with any recognized credit watch information service. In addition, the District may place money in interest bearing accounts which are initially deposited with a Florida QPD and are 100% FDIC insured.

2. Portfolio Composition

The ___________________________ will determine the composition of this portfolio for this type of investment.

3. Limits on Individual Issuers

A maximum of fifteen percent (15%) of available funds may be deposited with any one issuer.

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

F. Repurchase Agreements

1. Purchase Authorization

a. The _________________________________ may invest in repurchase agreements composed of only those investments based on the requirements set forth by the District's master repurchase agreement. All firms are required to sign the master repurchase agreement prior to the execution of a repurchase agreement transaction.

b. A third party custodian with whom the District has a current custodial agreement shall hold the collateral for all repurchase agreements with a term longer than one (1) business day. A clearly marked receipt that shows evidence of ownership must be supplied to the Director of Accounting Services and retained.

c. Securities authorized for collateral are negotiable direct obligations of the United States Government, Government Agencies, and Federal instrumentalities with maturities under five (5) years and must have a market value for the principal and accrued interest of 102% of the value and for the term of the repurchase agreement. Immaterial short-term deviations from 102% requirement are permissible only upon the approval of the Director of Accounting Services.

2. Portfolio Composition

The _______________________________ will determine the composition of this portfolio for this type of investment.

3. Limits on Individual Issuers

A maximum of twenty-five percent (25%) of available funds may be invested with any one institution.

4. Limits on Maturities

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

G. Commercial Paper

1. Purchase Authorization

The _____________________________________ may invest in commercial paper of any United States company that is rated, at the time or purchase, "Prime-1" by Moody's and "A-1" by Standard & Poor's (prime commercial paper). If the commercial paper is backed by a letter of credit ("LOC"), the long-term debt of the LOC provider must be rated "A" or better by at least two (2) nationally recognized rating agencies.

2. Portfolio Composition

The _________________________ will determine the composition of this portfolio for this type of investment.

3. Limits on Individual Issuers

A maximum of ten percent (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 180 days from the date of purchase.

H. Bankers' Acceptances

1. Purchase Authorization

The ___________________________________ may invest in bankers' acceptances issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, at the time or purchase, the short-term paper is rated, at a minimum, "P-1" by Moody's Investors Services and "A-1" Standard & Poor's.

2. Portfolio Composition

The _________________________ will determine the composition of this portfolio for this type of investment.

3. Limits on Individual Issuers

A maximum of ten percent (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.

I. State and/or Local Government Taxable and/or Tax-Exempt Debt

1. Purchase Authorization

The ____________________________________ may invest in State and/or local government taxable and/or tax-exempt debt, general obligation and/or revenue bonds, rated at least "Aa" by Moody's and "AA" by Standard & Poor's for long-term debt, or rated at least "MIG-2" by Moody's and "SP-2" by Standard & Poor's for short- term debt.

2. Portfolio Composition

The _____________________________ will determine the composition of this portfolio for this type of investment.

3. Maturity Limitations

A maximum length to maturity for an investment in any State or local government debt security is three (3) years from the date of purchase.

J. Registered Investment Companies (Mutual Funds)

1. Investment Authorization

The _________________________ may invest in shares in open-end, no-load provided such funds are registered under the Federal Investment Company Act of 1940 and operated in accordance with 17 C.F.R. 270.2a-7. In addition, the Director of Accounting Services may investment in other types of mutual funds provided such funds are registered under the Federal Investment Company Act of 1940, invest exclusively in the securities specifically permitted under this investment policy, and are similarly diversified.

2. Portfolio Composition

The __________________________________ will determine the composition of this portfolio for this type of investment.

3. Limits of Individual Issuers

A maximum of twenty-five percent (25%) of available funds may be invested with any one non-SEC Rule 2a-7 investment mutual fund.

4. Rating Requirements

The mutual funds shall be rated "Aam" or "AAm-G" or better by Standard & Poor's, or the equivalent by another rating agency.

5. Due Diligence Requirements

A thorough review of any investment mutual fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed by the _____________________________ that will contain a list of questions that covers the major aspects of any investment pool/fund.

K. Intergovernmental Investment Pool

1. Investment Authorization

The _____________________________ may invest in intergovernmental investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in F.S. 163.01 and provided that said funds contain no derivatives.

2. Portfolio Composition

The _____________________________ will determine the composition of this portfolio for this type of investment.

3. Due Diligence Requirements

A thorough review of any investment pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed by the _____________________________ that will contain a list of questions that covers the major aspects of any investment pool/fund.

DERIVATIVES AND REVERSE REPURCHASE AGREEMENTS

Investment in any derivative products or the use of reverse repurchase agreements requires specific Board approval prior to their use. If the Board approves the use of derivative products, the ____ and the _______________________________________ shall develop sufficient understanding of the derivative products and have the expertise to manage them. 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. If the Board approves the use of reverse repurchase agreements or other forms of leverage, the investment shall be limited to transactions in which the proceeds are intended to provide liquidity and for which the ____ and the __________________________________ have sufficient resources and expertise to manage them.

PERFORMANCE MEASUREMENTS

In order to assist in the evaluation of the portfolio's performance, the Board will use performance benchmarks for short-term and long- term portfolios. The use of benchmarks will allow the Board to measure its returns against other investors in the same markets.

A. The Treasury Indices, State Board of Administration's Local Government Surplus Funds Trust Fund ("SBA Pool"), and money fund index or the weighted average performance of the ten (10) largest prime funds, or other money fund indices (such as government fund indices) as appropriate, will be used as a benchmarks as compared to the portfolios' net book value rate of return for current operating (short-term) funds.

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 an index comprised of U.S. Treasury or government securities. 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.

C. Investment advisors will report performance on both book value and total rate of return basis and compare results to the above-stated benchmarks.

REPORTING

The ____ shall provide the Board with summary quarterly investment reports. The reports shall provide an overview of invested monies, the types of investments/securities in use, amounts invested, market value of investments, and the return on such investments.

On an annual basis, the ____ shall prepare and submit to the Board a written report on all invested funds, as a part of the Superintendent's annual financial report. 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.

THIRD-PARTY CUSTODIAL AGREEMENTS

Securities, with the exception of certificates of deposits, shall be held with a third party custodian; and all securities purchase 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 F.S. 658.12, 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 custodian shall accept transaction instructions only from those persons who have been duly authorized by the Superintendent 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 ____ 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.

INVESTMENT POLICY ADOPTION

The investment policy shall be adopted by Board resolution. The ____ and the ____ shall review the policy annually in November and the Board shall approve any modification made thereto.

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Legal

F.S. 1001.42

F.S. 1001.43

F.S. 1011.18

F.A.C. 6A-1.0012

F.A.C. 6A-1.085

Cross References

po6107V1 - AUTHORIZATION TO ACCEPT AND DISTRIBUTE ELECTRONIC RECORDS, TO USE ELECTRONIC SIGNATURE, AND MAKE ELECTRONIC FUND TRANSFERS

po6107V2 - ACCEPTANCE AND DISTRIBUTION OF ELECTRONIC RECORDS AND USE ELECTRONIC SIGNATURES PROHIBITED

Redline Draft

School Board of Brevard County, Florida
Policy 6144 – Investments

~~School Board of~~ Brevard County~~, (Florida)~~

~~Bylaws & Policies~~

~~6144 - INVESTMENTS~~

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 the School Board of Brevard County, Florida (hereinafter "Board"). ~~These~~ This ~~policies~~ policy ~~are~~ 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.

SCOPE

In accordance with ~~F.~~Section~~.~~ 218.415, Florida Statutes, this ~~investment~~ policy applies to all cash and investments (the "portfolios") held or controlled by the Board with the exception of pension funds, trust 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 Education) are not subject to the provisions of this policy.

INVESTMENT OBJECTIVES

A. **Safety of Principal**

The foremost objective of this investment program is the safety of the principal of those funds within the portfolios. Investment transactions shall seek 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 portfolios.

B. **~~Maintenance of~~ Liquidity**

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

C. **Return on Investment**

~~Investment p~~Portfolios shall be designed to attain 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; however, return is attempted through active management utilizing a total return strategy (which includes both realized and unrealized gains and losses in the portfolios). The~~is~~ total return strategy seeks to increase the value of the portfolios through reinvestment of income and capital gains. ~~The core of~~ I~~i~~nvestments are~~is~~ limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

DELEGATION OF AUTHORITY

The responsibility for providing oversight and direction ~~in regard to~~ for the management of the investment program resides with the ~~Board's~~ Superintendent and~~Associate Superintendent for Financial Services~~ Chief Financial Officer. The daily management responsibility for the investment program ~~for all Board funds~~ and all investment transactions~~in the investment program and investment transactions~~ is delegated to the Director of Accounting Services and designated support staff. The ~~Associate Superintendent for Financial Services~~Chief Financial Officer and the Director of Accounting Services shall establish written procedures for the operation of the ~~investment~~ portfolios and a system of internal accounting and administrative controls to regulate the investment activities. ~~of employees.~~ The Board may employ an investment ~~manager~~ advisor to assist staff in managing ~~some of~~ the Board's portfolios. Such investment ~~manager~~ advisor must be registered under the Investment Advis~~o~~ers Act of 1940. The investment ~~manager~~ advisor will act in a fiduciary capacity to the ~~District~~Board.

STANDARDS OF PRUDENCE

The standard of prudence to be used by investment officials shall be the "Prudent Person" standard and shall be applied in the context of managing the overall investment program. Individuals who are officers or employees ~~Investment officers~~ 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 to the Superintendent and/or Associate Superintendent for Financial Services in a timely mannerfashion 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 investment officials 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 contractor 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.

As part of a prudent assessment, the District may liquidate and/or reinvest funds that have been deemed invested in institutions with a history of non-compliance with state or federal law or not consistent with the District's ethical standards. The District can invest and/or reinvest to better further the statutory objectives of "safety of principal, liquidity, and return on investments," in that order, even if the alternative rate of return will be lower than the original investment.

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, e~~Employees involved in the investment process shall disclose to 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 investment program.

INTERNAL CONTROLS AND INVESTMENT PROCEDURES

The ~~Associate Superintendent for Financial Services~~Chief Financial Officer and the Director of Accounting Services shall establish a system of internal controls and operational procedures that are in writing and made a part of the Board'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, repurchase agreements~~investment transactions, separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts and ~~collateral/depository~~custodial and professional advisory agreements~~ agreements~~. No person may engage in an investment transaction except as authorized under the terms of this policy.

Independent auditors as a normal part of the annual financial audit to the Board shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

CONTINUING EDUCATION

The ~~Associate Superintendent for Financial Services~~Chief Financial Officer, the Director of Accounting Services and other designated supporting staff shall each annually complete a minimum of eight (8) hours of continuing education in subjects or courses of study related to investment management, practices and products.

~~AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS~~

~~Authorized Board staff and investment advisors shall only purchase securities from financial institutions, which are qualified as public depositories by the Treasurer of the State of Florida, or institutions designated as "primary securities dealers" by the Federal Reserve Bank of New York.~~

~~Authorized Board staff and investment advisors shall only enter into repurchase agreements with financial institutions that are state qualified public depositories and primary securities dealers as designated by the Federal Reserve Bank of New York.~~

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 ("short term" portfolios) shall have maturities of no longer than twenty-four (24) months.

~~Investments of bond reserves, construction funds, and other non-operating funds~~Other funds not required for current operating needs ("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 a half (5.5) years from the date of settlement.

The maturities of the underlying securities of a repurchase agreement will follow the requirements of the Securities Industry and Financial Markets Association (SIFMA) Master Repurchase Agreement.

RISK AND DIVERSIFICATION

Portfolio assets 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. In partnership with the investment advisor, t~~T~~he Director of Accounting Services with appropriate staff (designee) shall determine diversification strategies within the established guidelines.

MASTER REPURCHASE AGREEMENT

A~~a~~pproved institutions and dealers transacting repurchase agreements will be required to execute and perform as stated in the SIFMA Master Repurchase Agreement. All transactions under repurchase agreements shall~~will~~ also adhere to requirements of the SIFMA Master Repurchase Agreement.

COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

Staff will determine ~~After the Director of Accounting Services along with appropriate staff (designee) or the investment advisor has determined the~~ approximate maturity dates and optimal investment types based on ~~based on~~ cash flow needs and ~~and~~ market conditions. A ~~and has analyzed and selected one or more optimal types of investments, a~~ minimum of three (3) qualified banks and/or approved broker/dealers will then be solicited~~must be contacted and asked~~ by the investment advisor to provide bids/offers for specific ~~on~~ securities at specified maturity dates. ~~in questions.~~ Offers~~Bids~~ will be held in confidence until the ~~bid deemed to~~ best ~~meet the~~ investment options ~~objectives is~~have been determined and selected.

I~~However, i~~f obtaining bids/offers is ~~are~~ not feasible and appropriate, securities may be purchased utilizing the comparison to current market price method on an exception basis. Acceptable current market price providers include, but are not limited to:

A. ~~Telerate Information System~~TradeWeb

B. Bloomberg Information Systems

C. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing

D. Daily market pricing provided by the Board's custodian or their correspondent institutions

~~The Director of Accounting Services along with appropriate staff (designee)~~ and~~or the investment advisor shall utilize the competitive bid process to select the securities to be purchased or sold.~~ Selection by comparison to a current market price, ~~as indicated above,~~ shall only be utilized when, appropriate Staff~~in judgment of the Director of Accounting Services~~, along with ~~appropriate staff (designee) or~~ and the investment advisor, determine that competitive bidding would inhibit the selection process.

Examples of when this method may be used include:

A. when the transaction involves new issues or issues in the "when issued" market~~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 time constraints due to unusual circumstances preclude the use of the competitive bidding process;

~~D. when the transaction involves new issues or issues in the "when issued" market.~~

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

AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION

Investments should be made subject to the cash flow needs; such cash flows are subject to revisions as market conditions, and the Board's needs change. W~~However, w~~hen the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, appropriate Staff, with the approval of the Chief Financial Officer, ~~the Director of Accounting Services and/or the Associate Superintendent for Financial Services~~Chief Financial Officer ~~along with appropriate staff (designee)~~ may sell the investment at the then-prevailing market price and place the proceeds into the proper account held by the Board's custodial bank.

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the Board. In partnership with the investment advisor, t~~T~~he ~~Associate Superintendent for Financial Services~~Chief Financial Officer or the Director of Accounting Services along with appropriate staff (designee) shall have the option to further restrict investment percentages from time to time, based on market conditions, risk and diversification investment strategies. 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 as approved investments, are prohibited. All investments shall be in U.S. dollars only.

The following investments are permitted, provided they meet all other policy requirements and applicable laws and statutes:

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. Subordinated, secured and covered debt, if it meets the ratings requirements for the sector
C. Zero coupon issues and strips, excluding agency mortgage-backed Interest-only structures (I/Os)
D. Treasury TIPS

The following investments/transactions are **NOT PERMITTED** unless authorized by state statute and prior authorization is received by the Board**:**

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, other than fixed-income mutual funds and ETFs, and money market funds
L. Equities, commodities, currencies, and hard assets

Permitted Investments

Item #	Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement[1]	Maximum Maturity
1	United States Government Securities (Treasuries)	100%	100%	N/A	5.5 Years
2	Federal Agencies and Instrumentalities/GSE: GNMA, FNMA, FHLMC, FHLB, FFCB, SLMA*	75%	40%[2]	N/A	5.5 Years
	Federal Instrumentalities other than those above		10%		
	Agency Mortgage-Backed Securities (MBS):	25%	40%[2]		5.5 Years Avg. Life[4]
3	Corporate ~~s~~Securities	50%[3]	5%	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3 or equivalent)	5.5 Years
4	State, Local, Special District Taxable/Non-taxable Debt (Municipals)	25%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)	5.5 Years
5	Non-Negotiable Certificate of Deposit or Savings Accounts	50%	25%	If fully collateralized deposits secured by the Florida Security for Public Deposits Act, SS Chapter 280 and not listed with any recognized credit watch information services.	1 Years
6	Commercial Paper (CP)	50%[3]	5%	Highest ST Rating Category (A-1/P-1, or equivalent)	270 Days
7	Asset-Backed Securities (ABS)	25%	5%	Highest ST or LT Rating (A-1+/P-1, AAA/Aaa, or equivalent)	5.5 Years Avg. Life[4]
8	Repurchase Agreements (Repo or RP)	25%	15%	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	90 days
9	Money Market Funds (MMFs)[5]	75%	50%	Highest Fund Rating by all NRSROs who rate the fund (AAAm or equivalent)	N/A
10	Intergovernmental Pools (LGIPs)[5]	75%[6]	50%	Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP (AAAm or equivalent)	N/A
11	Florida Local Government Surplus Funds Trust Funds ("Florida Prime")[5]	25%[6]	N/A	Highest Fund Rating by all NRSROs who rate the fund (AAAm or equivalent)	N/A

Notes:

[1] Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization ("NRSRO"), unless otherwise noted. ST=Short-term; LT=Long-term.

[2] Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.

[3] Maximum allocation to all corporate and bank credit instruments is 50% combined.

[4] 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.

[5] Allowable funds are MMFs that maintain a stable net asset value (NAV) of $1.00, not subject to liquidity fees or redemptions gates, and are consistent with Rule 2a-7 or are pooled funds that are structured as a Rule 2a-7 like fund

[6] Maximum exposure to LGIPs and Florida Prime combined not to exceed 75%.

* Government National Mortgage Association (GNMA); 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); Student Loan Marketing Association (SLMA); Tennessee Valley Authority (TVA).

1) **United States Government Securities (Treasuries)** - A government debt instrument financed by the federal government and is fully backed or guaranteed by the full faith and credit of the U. S. Government. Such investments include treasury bills, notes, bonds and strips.

2) **Federal Agencies and Instrumentalities -** ~~[~~United States government sponsored agencies (GSA) or United States government sponsored enterprise (GSE), which do not guarantee the full faith and credit of the U.S. Government.~~]~~ Such securities include but are not limited to Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), ~~Federal~~and Federal Home Loan Mortgage Corporation (FHLMC).

2) **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.

3) **Corporate Securities –** U.S. dollar denominated corporate notes, bonds or other debt obligations issued or guaranteed by a domestic corporation, financial institution, non-profit, or other entity.

4) **State, Local, Special District taxable/non-taxable debt or Municipals –** Obligations, including both taxable and tax-exempt, issued 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.

5) **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.

6) **Commercial Paper –** U.S. dollar denominated commercial paper issued by a domestic corporation, company, financial institution, trust or other entity, only unsecured debt permitted.

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

   c. Counterparty must be a state qualified public depositories and a Primary Dealer as designated by the Federal Reserve Bank of New York, or a nationally chartered commercial bank.

d. 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.

e. 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.

f. Underlying securities must have an aggregate current market value of at least 103~~2~~% (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.

g. The maximum length to maturity of any repurchase agreement is ninety (90) days from the date of purchase.

9) **Money Market Funds -** Shares in open-end, no-load funds provided such funds are registered under the Federal Investment Company Act of 1940 and operate in accordance with Title 17 Code of Federal Regulations. § 270.2a-7, which stipulates that money market funds must have an average weighted maturity of sixty (60) days or less. The prospectus of the funds will indicate that the share value shall not fluctuate.

A thorough investigation of any money market fund is required prior to investing~~, and~~with ~~on an~~a review on annual 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/fund. A current prospectus must be obtained.

10) **Local Government Investment Pools –** State, local government or privately-sponsored investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in F.S. 163.01.

A thorough investigation of any intergovernmental investment pool is required prior to investing, ~~and~~with a review on an annual 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/fund. A current prospectus must be obtained.

11) **The Florida Local Government Surplus Funds Trust Funds ("Florida Prime") –** Investment in pooled money as a method for managing funds that is sponsored by Florida State Board of Administration and authorized pursuant to the Florida Interlocal Cooperation Act, as provided in F.S. 163.01.

A thorough investigation of Florida Prime is required prior to investing with a review on an annual 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/fund. A current prospectus must be obtained.

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 Director of Accounting Services and/or the Chief Financial Officer.

E. The maximum maturity of any investment is 5.5 years. Maturity is measured from settlement date. The final maturity date can be based on any mandatory call, put, pre-refunding date, or other mandatory redemption date.

2. Authorized staff shall only purchase securities from financial institutions, which are qualified as public depositories by the Treasurer of the State of Florida, or institutions designated as "primary dealers" by the Federal Reserve Bank of New York.
3. The Board's investment advisors shall utilize and maintain its own list of approved primary and non-primary dealers.
4. For the investment of debt proceeds, financial institutions shall be selected pursuant to the debt covenants
5. General portfolio limitations:
   A. The maximum effective duration of the aggregate portfolios is 3 years.

~~A. United States Government Securities~~

~~1. Purchase Authorization~~

~~The Director of Accounting Services along with appropriate staff (designee) 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:~~

~~Cash Management Bills~~

~~Treasury Securities – State and Local Government Series ("SLGS")~~

~~Treasury Bills~~

~~Treasury Notes~~

~~Treasury Bonds~~

~~Treasury Strips~~

~~2. Portfolio Composition~~

~~A maximum of 100% of available funds may be invested in the United States Government Securities.~~

~~3. Maturity Limitations~~

~~The maximum length to maturity of any direct investment in the United States Government Securities is five (5) years from the date of purchase.~~

~~B. United States Government Agencies~~

~~1. Purchase Authorization~~

~~The Director of Accounting Services along with appropriate staff (designee) may invest in bonds, debentures, notes or callables issued or guaranteed by the United States governments 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 fifty percent (50%) of available funds may be invested in United States government agencies.~~

~~3. Limits on Individual Issuers~~

~~A maximum of twenty-five percent (25%) of available funds may be invested in individual United States government agencies.~~

~~4. Maturity Limitations~~

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

~~C. Federal Instrumentalities (United States government sponsored agencies)~~

~~1. Purchase Authorization~~

~~The Director of Accounting Services along with appropriate staff (designee) may invest in bonds, debentures, notes or callables issued or guaranteed by United States government sponsored~~

~~agencies (Federal instrumentalities) which are non-full faith and credit agencies limited to the following:~~

~~Federal Farm Credit Bank (FFCB)~~

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

~~Federal National Mortgage Association (FNMA)~~

~~Federal Home Loan Mortgage Corporation (Freddie-Macs)~~

~~Federal Home Loan Mortgage Corporation participation certificates~~

~~2.~~ ~~Portfolio Composition~~

~~A maximum of eighty percent (80%) of available funds may be invested in Federal instrumentalities.~~

~~3.~~ ~~Limits on Individual Issuers~~

~~A maximum of forty percent (40%) of available funds may be invested in any one issuer.~~

~~4.~~ ~~Maturity Limitations~~

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

~~D.~~ ~~Interest Bearing Time Deposit or Saving Accounts~~

~~1.~~ ~~Purchase Authorization~~

~~The Director of Accounting Services along with appropriate staff (designee) 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 the State of Florida, provided that any such deposits~~

~~are secured by the Florida Security for Public Deposits Act, F.S. Chapter 280. Additionally, the bank shall not be listed with any recognized credit watch information service.~~

~~2.~~ ~~Portfolio Composition~~

~~A maximum of twenty-five percent (25%) of available funds may be invested in non-negotiable interest bearing time certificates of deposit.~~

~~3.~~ ~~Limits on Individual Issuers~~

~~A maximum of fifteen percent (15%) of available funds may be deposited with any one issuer.~~

~~4.~~ ~~The maximum maturity on any certificate shall be no greater than one (1) year from the date of purchase.~~

~~E.~~ ~~Repurchase Agreements~~

~~1.~~ ~~Purchase Authorization~~

~~a.~~ ~~The Director of Accounting Services along with appropriate staff (designee) may invest in repurchase agreements composed of only those investments based on the requirements set forth by the District's master repurchase agreement. All firms are required to sign the master repurchase agreement prior to the execution of a repurchase agreement transaction.~~

~~b.~~ ~~A third party custodian with whom the District has a current custodial agreement shall hold the collateral for all repurchase agreements with a term longer than one (1) business day. A clearly marked receipt that shows evidence of ownership must be supplied to the Director of Accounting Services and retained until maturity of the repurchase agreement.~~

~~c.~~ ~~Securities authorized for collateral are negotiable direct obligations of the United States government, government agencies, and Federal instrumentalities with maturities under five (5) years and must have a market value for the principal and accrued interest of 102% of the value and for the term of the repurchase agreement.~~

~~Immaterial short-term deviations from 102% requirement are permissible only upon the approval of the Director of Accounting Services along with appropriate staff (designee).~~

~~2. Portfolio Composition~~

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

~~3. Limits on Individual Issuers~~

~~A maximum of twenty-five percent (25%) of available funds may be invested with any one institution.~~

~~4. Limits on Maturities~~

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

~~F. Commercial Paper~~

~~1. Purchase Authorization~~

~~The Director of Accounting Services along with appropriate staff (designee) may invest in commercial paper of any United States company that is rated, at the time or purchase, "Prime-1" by Moody's and "A-1" by Standard & Poor's (prime commercial paper). If the commercial paper is backed by a letter of credit ("LOC"), the long-term debt of the LOC provider must be rated "A" or better by at least two (2) nationally recognized rating agencies.~~

~~2. Portfolio Composition~~

~~A maximum of thirty-five percent (35%) of available funds may be directly invested in prime commercial paper.~~

~~3. Limits on Individual Issuers~~

~~A maximum of ten percent (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.~~

~~G. Bankers' Acceptances~~

~~1. Purchase Authorization~~

~~The Director of Accounting Services along with appropriate staff (designee) may invest in Bankers' acceptances issued by a domestic bank or a Federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, at the time or purchase, the short-term paper is rated, at a minimum, "P-1" by Moody's Investors Services and "A-1" by Standard & Poor's.~~

~~2. Portfolio Composition~~

~~A maximum of thirty-five percent (35%) of available funds may be directly invested in Bankers' acceptances~~

~~3. Limits on Individual Issuers~~

~~A maximum of ten percent (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.~~

~~H. Corporate Notes~~

~~1. Purchase Authorization~~

~~The Director of Accounting Services 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 A3 by Moody's and a minimum long-term debt rating of A- by Standard & Poor's.~~

~~2. Portfolio Composition~~

~~A maximum of twenty percent (20%) of available funds may be directly invested in corporate notes.~~

~~3. Limits on Individual Issuers~~

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

~~4. Maturity Limitations~~

~~The maximum length to maturity for corporate notes shall be three (3) years from the date of purchase.~~

~~I. State and/or Local Government Taxable and/or Tax-Exempt Debt~~

~~1. Purchase Authorization~~

~~The Director of Accounting Services along with appropriate staff (designee) may invest in state and/or local government taxable and/or tax-exempt debt, general obligation and/or revenue bonds, rated at least "Aa3" by Moody's and "AA-" by Standard & Poor's for long-term debt, or rated at least "VMIG2" or "MIG-2" by Moody's and "A-2" by Standard & Poor's for short-term debt.~~

~~2. Portfolio Composition~~

~~A maximum of twenty percent (20%) of available funds may be invested in taxable and tax-exempt debts.~~

~~3. Maturity Limitations~~

~~A maximum length to maturity for an investment in any state or local government debt security is three (3) years from the date of purchase.~~

~~J. Registered Investment Companies (Mutual Funds)~~

~~1. Investment Authorization~~

~~The Director of Accounting Services along with appropriate staff (designee) may invest in shares in open-end, no-load funds provided such funds are registered under the Federal Investment Company Act of 1940 and operated in accordance with 17 C.F.R. 270.2a-7. In addition, the Director of Accounting Services along with appropriate staff (designee) may investment in other types of mutual funds provided such funds are registered under the Federal Investment Company Act of 1940, invest exclusively in the securities specifically permitted under this investment policy, and are similarly diversified.~~

~~2. Portfolio Composition~~

~~A maximum of seventy-five percent (75%) of available funds may be invested in mutual funds.~~

~~3. Limits of Individual Issuers~~

~~A maximum of twenty-five percent (25%) of available funds may be invested with any one non-SEC Rule 2a-7 investment mutual fund.~~

~~4. Rating Requirements~~

~~The mutual funds shall be rated "AAAm" by Standard & Poor's, or the equivalent by another rating agency.~~

~~5. Due Diligence Requirements~~

~~A thorough review of any investment mutual fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed by the Director of Accounting Services along with appropriate staff (designee) that will contain a list of questions that covers the major aspects of any investment pool/fund.~~

~~K. Intergovernmental Investment Pools~~

~~1. Investment Authorization~~

~~The Director of Accounting Services along with appropriate staff (designee) may invest in intergovernmental investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in F.S. 163.01, and provided that said funds contain no derivatives.~~

~~2. Portfolio Composition~~

~~A maximum of twenty-five percent (25%) of available funds may be invested in intergovernmental investment pools.~~

~~3. Rating Requirements~~

~~The investment pool shall be rated "AAAm" by Standard & Poor's or the equivalent by another rating agency.~~

~~4. Due Diligence Requirements~~

~~A thorough review of any investment pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed by the Director of Accounting Services along with appropriate staff (designee) that will contain a list of questions that covers the major aspects of any investment pool/fund.~~

DERIVATIVES AND REVERSE REPURCHASE AGREEMENTS

Investment in any derivative products or the use of reverse repurchase agreements requires specific Board approval at a formal Board meeting prior to their use~~, unless already specified in Section Authorized Investments and Portfolio Composition~~. If the Board approves the use of derivative products, the ~~Associate Superintendent for Financial Services~~Chief Financial Officer and the Director of Accounting along with appropriate staff (designee) shall develop sufficient understanding of the derivative products and have the expertise to manage them. 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. If the Board approves the use of reverse repurchase agreements or other forms of leverage, the investment shall be limited to transactions in which the proceeds are intended to provide liquidity and for which the ~~Associate Superintendent for Financial Services~~Chief Financial Officer and the Director of Accounting along with appropriate staff (designee) have sufficient resources and expertise to manage them.

PERFORMANCE MEASUREMENTS

In order to assist in the evaluation of the portfolio~~'~~s' performance, the Board will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks will allow the Board to measure its returns against other investors in the same markets.

A. ~~The United States 91-Day Treasury Bill yield will be used as a benchmark as compared to the portfolios' net book value rate of return for current operating funds.~~ The short-term portfolios shall be designed with the annual objective of exceeding the weighted average return (net book value rate of return) of the S&P Rated GIP Index Government 30-Day Gross of Fees Yield.

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 ~~an index comprised of~~ the ICE BofAML 1-3 Year U.S. Treasury.~~Bank of America Merrill Lynch 1-3 Year~~ ~~U.S. Treasury or Government securities~~~~Note Index.~~ 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 portfolio~~'~~s' total rate of return.

C. Investment advisors will report performance on both book value and total rate of return (if applicable) basis and compare results to the above-stated benchmarks.

REPORTING

The Board shall receive~~Associate Superintendent for Financial Services~~~~Chief Financial Officer and the Director of Accounting Services along with appropriate staff (designee) or~~ ~~and the investment advisor shall provide the Board with~~ quarterly investment reports which include the following information:~~. Schedules in the quarterly report should include the following:~~

A. Summary of yield by major fund against standard benchmarks
B. Maturity distribution, credit quality, & sector allocation by major fund
C. Issuer & security type allocation

Annually the Board shall receive written reports that include the following information:~~On an annual basis, the CFO and the Director of Accounting Services along with appropriate staff (designee) and the investment advisor 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~~

D. A listing of individual securities held at the end of the reporting period
E. Amount and percentage represented by each investment type
F. Coupon, discount or rate of return
G. Average life or duration and final maturity of all investments
H. Par value, market value, and original cost

~~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 Associate Superintendent of Financial Services and the Director of Accounting Services along with appropriate staff (designee) or the investment advisor 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 any applicable GAAP and GASB standards. Investment reports shall be available to the public.

THIRD-PARTY CUSTODIAL AGREEMENTS

Securities~~, with the exception of certificates of deposits,~~ shall be held with a third party custodian.~~; and a~~All securities purchased by~~,~~ and all collateral obtained by the Board should be properly designated as an asset of the Board and held in the name of the School Board of Brevard County. 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 f~~F~~ederal government, the s~~S~~tate of Florida, or any other state or territory of the United States which has a branch or principal place of business in the state~~the State~~ of Florida as defined in F.S. 658.12, 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 custodian shall accept transaction instructions only from those persons who have been duly authorized ~~by the Associate Superintendent for Financial Services~~~~Chief Financial Officer~~ ~~or Director of Accounting Services~~ to make such transactions 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~~, except by such a duly authorized person.

The custodian shall provide the District with ~~safekeeping~~ receipts that provide detailed 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.

INVESTMENT POLICY REVIEW~~ADOPTION~~

School Board of Brevard County, Florida
Policy 6144 – Investments

The ~~investment~~ policy along with all amendments shall be approved~~adopted~~ by the ~~Board~~ Board~~.~~~~resolution~~. The ~~Associate Superintendent for Financial Services~~Chief Financial Officer and the Director of Accounting Services along with appropriate staff (designee) shall review the policy annually and shall present all modifications to the Board for approval~~.shall approve any modification made thereto~~. A glossary of cash and ~~-~~investment terms are included in Attachment A and internal control procedures will be kept on file in the Department of Accounting Services.

F.S. 1001.41, 1001.42, 1001.43, 1010.01, 1011.09, 1011.18, 163.01, 215.85, 218.415
F.A.C. ~~6A-1.085~~6A-1.0012,

Revised 04/22/08
Revised 08/14/12
Revised xx/xx/21

School Board of Brevard County, Florida
Policy 6144 – Investments

Attachment A

Glossary of Cash and Investment Management Terms

The following is a glossary of key investing terms, many of which appear in the Board's 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."

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.

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/Paying 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~~agency. ~~vast majority of~~Most 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.)

[(Total assets) - (Liabilities)]/(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.

Real Estate Mortgage Investment Conduit (REMIC). Similar to a CMO, this is an investment comprised of a fixed pool of mortgages bundled together and sold.

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 and investor and a custody bank that allows the custody bank to "loan" the investors 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.

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."

School Board of Brevard County, Florida
Policy 6144 – Investments

Attachment B

Investment Pool/Fund Questionnaire

This attachment is a list of questions to be answered prior to investing that covers the major aspects of any investment pool/fund.

General Fund/Pool Information:

1. Does the fund/pool attempt to maintain a stable net asset value or floating net asset value?
2. How is interest distributed, and how are gains and losses are treated?
3. How often are statements and portfolio holdings distributed?
4. Is the fund/pool eligible for bond proceeds and/or will it accept such proceeds?

Oversight:

5. What are the fund/pool ratings by the Nationally Recognized Statistical Rating Organizations such as S&P, Moody's, Fitch, Kroll, etc.?
6. What are the eligible investment securities, and a written statement of investment policy and objectives?
7. How are the securities safeguarded (including the settlement processes)? How often are the securities priced? How often is the fund/pool audited?
8. Is there any additional oversight outside of the Board of Trustees?

Fund/Pool Statistics:

9. What is the current sector allocation of the fund/pool?
10. What is the fee schedule, and how and when is it assessed?

Liquidity:

11. Does the fund/pool follow GASB 79?
12. Does the fund/pool have any liquidity fees? If so, describe the terms.
13. Does the fund/pool have redemption gates? If so, describe them.

Investor Requirements

14. Who may invest in the program, how often, what size deposit and withdrawal are allowed.
15. Is there a limit regarding investor concentration? If so, what is it?

Clean Version

School Board of Brevard County, Florida
Policy 6144 – Investments

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 the School Board of Brevard County, Florida (hereinafter "Board"). 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.

SCOPE

In accordance with Section 218.415, Florida Statutes, this policy applies to all cash and investments (the "portfolios") held or controlled by the Board with the exception of pension funds, trust 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 Education) are not subject to the provisions of this policy.

INVESTMENT OBJECTIVES

A. **Safety of Principal**

The foremost objective of this investment program is the safety of the principal of those funds within the portfolios. Investment transactions shall seek 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 portfolios.

B. **Liquidity**

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

C. **Return on Investment**

Portfolios shall be designed to attain 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; however, return is attempted through active management utilizing a total return strategy (which includes both realized and unrealized gains and losses in the portfolios). The total return strategy seeks to increase the value of the portfolios through reinvestment of income and capital gains. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

DELEGATION OF AUTHORITY

The responsibility for providing oversight and direction for the management of the investment program resides with the Superintendent and Chief Financial Officer. The daily management responsibility for the investment program and all investment transactions is delegated to the Director of Accounting Services and designated support staff. The Chief Financial Officer and the Director of Accounting Services shall establish written procedures for the operation of the portfolios and a system of internal accounting and administrative controls to regulate the investment activities. The Board may employ an investment advisor to assist staff in managing the Board's portfolios. Such investment advisor must be registered under the Investment Advisers Act of 1940. The investment advisor will act in a fiduciary capacity to the Board.

STANDARDS OF PRUDENCE

The standard of prudence to be used by investment officials shall be the "Prudent Person" standard and shall be applied in the context of managing the overall investment program. Individuals who are officers or employees acting in accordance with written procedures and this policy and exercising due diligence shall be relieved of personal responsibility. 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 investment officials 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 contractor 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.

As part of a prudent assessment, the District may liquidate and/or reinvest funds that have been deemed invested in institutions with a history of non-compliance with state or federal law or not consistent with the District's ethical standards. The District can invest and/or reinvest to better further the statutory objectives of "safety of principal, liquidity, and return on investments," in that order, even if the alternative rate of return will be lower than the original investment.

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. Employees involved in the investment process shall disclose to 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 investment program.

INTERNAL CONTROLS AND INVESTMENT PROCEDURES

The Chief Financial Officer and the Director of Accounting Services shall establish a system of internal controls and operational procedures that are in writing and made a part of the Board's operational procedures. The internal controls should be designed to prevent losses of funds, which might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees. The written procedures should include reference to investment transactions, separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts and custodial and professional advisory agreements. No person may engage in an investment transaction except as authorized under the terms of this policy.

Independent auditors as a normal part of the annual financial audit to the Board shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

CONTINUING EDUCATION

The Chief Financial Officer, the Director of Accounting Services and other designated supporting staff shall each annually complete a minimum of eight (8) hours of continuing education in subjects or courses of study related to investment management, practices and products.

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 ("short term" portfolios) shall have maturities of no longer than twenty-four (24) months.

Other funds not required for current operating needs ("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 a half (5.5) years from the date of settlement.

The maturities of the underlying securities of a repurchase agreement will follow the requirements of the Securities Industry and Financial Markets Association (SIFMA) Master Repurchase Agreement.

RISK AND DIVERSIFICATION

Portfolio assets 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. In partnership with the investment advisor, the Director of Accounting Services with appropriate staff (designee) shall determine diversification strategies within the established guidelines.

MASTER REPURCHASE AGREEMENT

Approved institutions and dealers transacting repurchase agreements will be required to execute and perform as stated in the SIFMA Master Repurchase Agreement. All transactions under repurchase agreements shall also adhere to requirements of the SIFMA Master Repurchase Agreement.

COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

Staff will determine approximate maturity dates and optimal investment types based on cash flow needs and market conditions. A minimum of three (3) qualified banks and/or approved broker/dealers will then be solicited by the investment advisor to provide bids/offers for specific securities at specified maturity dates. Offers will be held in confidence until the best investment options have been determined and selected.

If obtaining bids/offers is not feasible and appropriate, securities may be purchased utilizing the comparison to current market price method on an exception basis. Acceptable current market price providers include, but are not limited to:

A. TradeWeb

B. Bloomberg Information Systems

C. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing

D. Daily market pricing provided by the Board's custodian or their correspondent institutions

Selection by comparison to a current market price, shall only be utilized when, appropriate Staff, along with the investment advisor, determine that competitive bidding would inhibit the selection process.

Examples of when this method may be used include:

A. when the transaction involves new issues or issues in the "when issued" market;

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 time constraints due to unusual circumstances preclude the use of the competitive bidding process;

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

AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION

Investments should be made subject to the cash flow needs; such cash flows are subject to revisions as market conditions, and the Board's needs change. When the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, appropriate Staff, with the approval of the Chief Financial Officer, may sell the investment at the then-prevailing market price and place the proceeds into the proper account held by the Board's custodial bank.

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the Board. In partnership with the investment advisor, the Chief Financial Officer or the Director of Accounting Services along with appropriate staff (designee) shall have the option to further restrict investment percentages from time to time, based on market conditions, risk and diversification investment strategies. The percentage allocation 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 as approved investments, are prohibited. All investments shall be in U.S. dollars only.

The following investments are permitted, provided they meet all other policy requirements and applicable laws and statutes:

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. Subordinated, secured and covered debt, if it meets the ratings requirements for the sector
C. Zero coupon issues and strips, excluding agency mortgage-backed Interest-only structures (I/Os)
D. Treasury TIPS

The following investments/transactions are **NOT PERMITTED** unless authorized by state statute and prior authorization is received by the Board**:**

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, other than fixed-income mutual funds and ETFs, and money market funds
L. Equities, commodities, currencies, and hard assets

Permitted Investments

Item #	Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement[1]	Maximum Maturity
1	United States Government Securities (Treasuries)	100%	100%	N/A	5.5 Years
2	Federal Agencies and Instrumentalities/GSE: GNMA, FNMA, FHLMC, FHLB, FFCB, SLMA*	75%	40%[2]	N/A	5.5 Years
	Federal Instrumentalities other than those above		10%		
	Agency Mortgage-Backed Securities (MBS):	25%	40%[2]		5.5 Years Avg. Life[4]
3	Corporate Securities	50%[3]	5%	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3 or equivalent)	5.5 Years
4	State, Local, Special District Taxable/Non-taxable Debt (Municipals)	25%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)	5.5 Years
5	Non-Negotiable Certificate of Deposit or Savings Accounts	50%	25%	If fully collateralized deposits secured by the Florida Security for Public Deposits Act, SS Chapter 280 and not listed with any recognized credit watch information services.	1 Years
6	Commercial Paper (CP)	50%[3]	5%	Highest ST Rating Category (A-1/P-1, or equivalent)	270 Days
7	Asset-Backed Securities (ABS)	25%	5%	Highest ST or LT Rating (A-1+/P-1, AAA/Aaa, or equivalent)	5.5 Years Avg. Life[4]
8	Repurchase Agreements (Repo or RP)	25%	15%	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	90 days
9	Money Market Funds (MMFs)[5]	75%	50%	Highest Fund Rating by all NRSROs who rate the fund (AAAm or equivalent)	N/A
10	Intergovernmental Pools (LGIPs)[5]	75%[6]	50%	Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP (AAAm or equivalent)	N/A
11	Florida Local Government Surplus Funds Trust Funds ("Florida Prime")[5]	25%[6]	N/A	Highest Fund Rating by all NRSROs who rate the fund (AAAm or equivalent)	N/A

Notes:

[1] Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization ("NRSRO"), unless otherwise noted. ST=Short-term; LT=Long-term.

[2] Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.

[3] Maximum allocation to all corporate and bank credit instruments is 50% combined.

[4] 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.

[5] Allowable funds are MMFs that maintain a stable net asset value (NAV) of $1.00, not subject to liquidity fees or redemptions gates, and are consistent with Rule 2a-7 or are pooled funds that are structured as a Rule 2a-7 like fund

[6] Maximum exposure to LGIPs and Florida Prime combined not to exceed 75%.

* Government National Mortgage Association (GNMA); 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); Student Loan Marketing Association (SLMA); Tennessee Valley Authority (TVA).

1) **United States Government Securities (Treasuries)** - A government debt instrument financed by the federal government and is fully backed or guaranteed by the full faith and credit of the U. S. Government. Such investments include treasury bills, notes, bonds and strips.

2) **Federal Agencies and Instrumentalities -** United States government sponsored agencies (GSA) or United States government sponsored enterprise (GSE), which do not guarantee the full faith and credit of the U.S. Government. Such securities include but are not limited to Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC).

2) **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.

3) **Corporate Securities –** U.S. dollar denominated corporate notes, bonds or other debt obligations issued or guaranteed by a domestic corporation, financial institution, non-profit, or other entity.

4) **State, Local, Special District taxable/non-taxable debt or Municipals –** Obligations, including both taxable and tax-exempt, issued 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.

5) **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.

6) **Commercial Paper –** U.S. dollar denominated commercial paper issued by a domestic corporation, company, financial institution, trust or other entity, only unsecured debt permitted.

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) **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. All approved institutions and dealers transacting repurchase agreements must execute and perform as stated in the SIFMA Master Repurchase Agreement. All repurchase agreement transactions will adhere to requirements of the SIFMA Master Repurchase Agreement.
   c. Counterparty must be a state qualified public depositories and a Primary Dealer as designated by the Federal Reserve Bank of New York, or a nationally chartered commercial bank.
   d. 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.

   e. 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.
   f. Underlying securities must have an aggregate current market value of at least 103% (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.
   g. The maximum length to maturity of any repurchase agreement is ninety (90) days from the date of purchase.

9) **Money Market Funds -** Shares in open-end, no-load funds provided such funds are registered under the Federal Investment Company Act of 1940 and operate in accordance with Title 17 Code of Federal Regulations. § 270.2a-7, which stipulates that money market funds must have an average weighted maturity of sixty (60) days or less. The prospectus of the funds will indicate that the share value shall not fluctuate.

   A thorough investigation of any money market fund is required prior to investing with a review on annual 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/fund. A current prospectus must be obtained.

10) **Local Government Investment Pools –** State, local government or privately-sponsored investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in F.S. 163.01.

   A thorough investigation of any intergovernmental investment pool is required prior to investing, with a review on an annual 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/fund. A current prospectus must be obtained.

11) **The Florida Local Government Surplus Funds Trust Funds ("Florida Prime") –** Investment in pooled money as a method for managing funds that is sponsored by Florida State Board of Administration and authorized pursuant to the Florida Interlocal Cooperation Act, as provided in F.S. 163.01.

   A thorough investigation of Florida Prime is required prior to investing with a review on an annual 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/fund. A current prospectus must be obtained.

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 Director of Accounting Services and/or the Chief Financial Officer.
   E. The maximum maturity of any investment is 5.5 years. Maturity is measured from settlement date. The final maturity date can be based on any mandatory call, put, pre-refunding date, or other mandatory redemption date.

2. Authorized staff shall only purchase securities from financial institutions, which are qualified as public depositories by the Treasurer of the State of Florida, or institutions designated as "primary dealers" by the Federal Reserve Bank of New York.
3. The Board's investment advisors shall utilize and maintain its own list of approved primary and non-primary dealers.
4. For the investment of debt proceeds, financial institutions shall be selected pursuant to the debt covenants
5. General portfolio limitations:
    A. The maximum effective duration of the aggregate portfolios is 3 years.

DERIVATIVES AND REVERSE REPURCHASE AGREEMENTS

Investment in any derivative products or the use of reverse repurchase agreements requires specific Board approval at a formal Board meeting prior to their use. If the Board approves the use of derivative products, the Chief Financial Officer and the Director of Accounting along with appropriate staff (designee) shall develop sufficient understanding of the derivative products and have the expertise to manage them. 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. If the Board approves the use of reverse repurchase agreements or other forms of leverage, the investment shall be limited to transactions in which the proceeds are intended to provide liquidity and for which the Chief Financial Officer and the Director of Accounting along with appropriate staff (designee) have sufficient resources and expertise to manage them.

PERFORMANCE MEASUREMENTS

In order to assist in the evaluation of the portfolios' performance, the Board will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks will allow the Board to measure its returns against other investors in the same markets.

A. The short-term portfolios shall be designed with the annual objective of exceeding the weighted average return (net book value rate of return) of the S&P Rated GIP Index Government 30-Day Gross of Fees Yield.

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 ICE BofAML 1-3 Year U.S. Treasury. 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.

C. Investment advisors will report performance on both book value and total rate of return (if applicable) basis and compare results to the above-stated benchmarks.

REPORTING

The Board shall receive quarterly investment reports which include the following information:

A. Summary of yield by major fund against standard benchmarks
B. Maturity distribution, credit quality, & sector allocation by major fund
C. Issuer & security type allocation

Annually the Board shall receive written reports that include the following information:

D. A listing of individual securities held at the end of the reporting period
E. Amount and percentage represented by each investment type
F. Coupon, discount or rate of return
G. Average life or duration and final maturity of all investments
H. Par value, market value, and original cost

All investments shall be reported per any applicable GAAP and GASB standards. Investment reports shall be available to the public.

THIRD-PARTY CUSTODIAL AGREEMENTS

Securities shall be held with a third party custodian. All securities purchased by and all collateral obtained by the Board should be properly designated as an asset of the Board and held in the name of the School Board of Brevard County. 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 F.S. 658.12, 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 custodian shall accept transaction instructions only from those persons who have been duly authorized to make such transactions and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made, except by such a duly authorized person.

The custodian shall provide the District with receipts that provide detailed 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.

INVESTMENT POLICY REVIEW

The policy along with all amendments shall be approved by the Board. The Chief Financial Officer and the Director of Accounting Services along with appropriate staff (designee) shall review the policy annually and shall present all modifications to the Board for approval. A glossary of cash and investment terms are included in Attachment A and internal control procedures will be kept on file in the Department of Accounting Services.

F.S. 1001.41, 1001.42, 1001.43, 1010.01, 1011.09, 1011.18, 163.01, 215.85, 218.415
F.A.C. 6A-1.0012,

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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 Board's 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."

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.

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 <u>not</u> 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/Paying 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. Most 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.)

[(Total assets) - (Liabilities)]/(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.

Real Estate Mortgage Investment Conduit (REMIC). Similar to a CMO, this is an investment comprised of a fixed pool of mortgages bundled together and sold.

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 and investor and a custody bank that allows the custody bank to "loan" the investors 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.

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."

School Board of Brevard County, Florida
Policy 6144 – Investments

Attachment B

Investment Pool/Fund Questionnaire

This attachment is a list of questions to be answered prior to investing that covers the major aspects of any investment pool/fund.

General Fund/Pool Information:

1. Does the fund/pool attempt to maintain a stable net asset value or floating net asset value?
2. How is interest distributed, and how are gains and losses are treated?
3. How often are statements and portfolio holdings distributed?
4. Is the fund/pool eligible for bond proceeds and/or will it accept such proceeds?

Oversight:

5. What are the fund/pool ratings by the Nationally Recognized Statistical Rating Organizations such as S&P, Moody's, Fitch, Kroll, etc.?
6. What are the eligible investment securities, and a written statement of investment policy and objectives?
7. How are the securities safeguarded (including the settlement processes)? How often are the securities priced? How often is the fund/pool audited?
8. Is there any additional oversight outside of the Board of Trustees?

Fund/Pool Statistics:

9. What is the current sector allocation of the fund/pool?
10. What is the fee schedule, and how and when is it assessed?

Liquidity:

11. Does the fund/pool follow GASB 79?
12. Does the fund/pool have any liquidity fees? If so, describe the terms.
13. Does the fund/pool have redemption gates? If so, describe them.

Investor Requirements

14. Who may invest in the program, how often, what size deposit and withdrawal are allowed.
15. Is there a limit regarding investor concentration? If so, what is it?