City of Boca Raton

Incorporated 1925

RESOLUTION

26-2017

A RESOLUTION OF THE CITY OF BOCA RATON ADOPTING AN AMENDED INVESTMENT POLICY FOR THE CITY OF BOCA RATON; PROVIDING FOR SEVERABILITY; PROVIDING FOR REPEALER; PROVIDING AN EFFECTIVE DATE

WHEREAS, the City Council adopted an Investment Policy, for safekeeping and efficient management of the City's cash reserves; and

WHEREAS, the City Council believes that it is necessary, appropriate and in the public interest to amend the policy again; and

WHEREAS, such an amended Investment Policy has been prepared and a copy thereof is attached hereto; now therefore

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF BOCA RATON:

Section 1. That the Mayor and City Council of the City of Boca Raton hereby adopts the attached amended "Investment Policy for the City of Boca Raton" and hereby directs the City Manager to implement said policy.

Section 2. If any section, subsection, clause or provision of this resolution is held invalid, the remainder shall not be affected by such invalidity.

Section 3. All resolutions or parts of resolutions in conflict herewith shall be and hereby are repealed; provided, however, Resolution Nos. 042-2016, 108-2011, 195-2002, 274-2000, 187-1999, 225-1996, 205-1995, 151-1993, and 059-1990 (reflecting the City's prior adopted investment policies) are hereby expressly repealed.

Section 4. This resolution shall take effect 31 days after adoption.

PASSED AND ADOPTED by the City Council of the City of Boca Raton this 14th day of February, 2017.

CITY OF BOCA RATON, FLORIDA

ATTEST:

Susan Haynie, Mayor

Susan S. Saxton, City Clerk

COUNCIL VOTE	YES	NO	ABSTAINED
MAYOR SUSAN HAYNIE	✓		
DEPUTY MAYOR MICHAEL MULLAUGH	✓		
COUNCIL MEMBER JEREMY RODGERS	✓		
COUNCIL MEMBER SCOTT SINGER	✓		
COUNCIL MEMBER ROBERT S. WEINROTH	✓		

Investment Policy

for

City of Boca Raton

adopted February, 14, 2017

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INVESTMENT POLICY

I. <u>INTRODUCTION</u>

The City of Boca Raton Investment Policy is intended to set forth the framework within which the City's investment activities will be conducted. The Investment Policy establishes parameters for investment activity which may be further restricted by the Treasurer (designated as Investment Officer) Director of Financial Services or City Manager. The Investment Policy provides both minimums and maximums for investment type to limit risk and ensure a broadly diversified portfolio.

In establishing this Investment Policy, the City recognizes the traditional relationship between risk and return and acknowledges that all investments involve a variety of risks related to maturity, credit, market and other factors. Additionally, some investments involve third parties whose performance (or failure to perform) may affect the value or liquidity of the underlying investment.

When choosing between alternative investments, the Investment Officer should structure the portfolio based on an understanding of the variety of risks and the basic principle of diversification (imposed by this policy) on the structure of the portfolio. With adoption of this Investment Policy, the City recognizes that total investment return portfolio management may sometimes necessitate the sale of securities at a loss in order to reduce portfolio risk (with the intent to avoid a material reduction in return) or to achieve a greater overall return (with the intent to avoid a material increase in risk) than could have been obtained if the original position had been held. The City typically holds securities to their maturity.

This Investment Policy and the actions of staff, External Investment Managers and Advisor will be guided by the standard of care expected of a *"Prudent Person"* or *"Prudent Expert"*. *The Prudent Person rule states that, "Investments should be made with judgment and care, under the 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." The "Prudent Expert"* rule implies a level of knowledge commensurate with the responsibility at hand and if further defined in the Cash and Investment Management Terms section below.

The Investment Policy provides that the City may utilize internal management for operational shorter-term investments and may use external managers and investment products to manage the longer-term investments or specialty investment areas.

From time to time changes are made to this policy as a continuation of the City's conservative approach to commitment with regard to its financial affairs. It is the intent to at all times ensure that the investments of the City are being managed in a prudent and effective manner, thus giving the City the best opportunity to take advantage of all market environments and generate the appropriate risk adjusted returns with safety in mind that fit within the scope of this Policy Statement, while maintaining liquidity and preserving capital.

II. SCOPE

In accordance with Section 218.415, Florida Statutes, this Investment Policy applies to all the investment activity and cash balances of the City, except for its employees' pension trust funds, and debt service related escrow funds, which are organized and administered separately. The employee's pension funds are administered in accordance with separate investment policies. Escrow funds held to pay and defease refunded bonds shall be invested in accordance with the terms of the escrow deposit agreement.

III. INVESTMENT OBJECTIVES

Safety of Principal

The foremost objective of this investment program is the safety of the principal of those funds within the short term operating 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.

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. Periodically cash flow analyses will be completed in order to ensure that the portfolios are positioned to provide sufficient liquidity. To the extent possible, an attempt shall be made to match investment maturities with known cash needs and anticipated cash-flow requirements. External Investment Managers shall be kept informed of the liquidity requirements of the portfolio.

Return on 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. The Pension Sustainability Fund's objective is long term asset growth with a balanced approach, blending growth, income and diversification.

IV. DELEGATION OF AUTHORITY

The Treasurer is designated as the Investment Officer of the City and is responsible for investment decisions and activities, under the direction of the Director of Financial Services and City Manager. The day-to-day administration of the cash management program is handled by the Treasurer. The Director of Financial Services shall hold primary responsibility for assuring compliance with the City's Investment Policy. The Director of Financial Services or City Manager at any time may revoke the Treasurer's designation as Investment Officer by written notification to the Treasurer.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures so established. The

City may appoint outside Investment Managers as "Agents" for the City's cash reserves.   Positions authorized as investment signatories are City Manager, Director of Financial Services and Deputy Financial Services Director.

V. EXTERNAL INVESTMENT MANAGEMENT SELECTION

The City may engage External Investment Managers to manage all or a portion of the Operating Portfolio. The City will prudently select external Investment Managers based on their respective expertise relative to the investment mandate the City seeks to fulfill or the investment service it seeks to receive. The selection or termination of external Investment Managers shall be made by the City Manager, Director of Financial Services and the Treasurer. The selection process shall include a thorough review of the investment firm and its representatives using appropriate due diligence. The City may engage External Investment Advisors to assist with monitoring the External Investment Managers and to provide Performance Reporting. The External Investment Advisor will be selected in accordance with the City’s Procurement Code.

VI. 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 City Manager 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”* and shall be considered a fiduciary for the funds invested with them for the City**.** The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, an Investment Advisor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct 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.

VII. 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 City any material financial interests in financial institutions that conduct business with the City, and they shall further disclose any material personal financial and investment positions that could be related to the performance of the City’s investment program. Employees involved in the investment process shall comply with the Palm Beach County Code of Ethics and the Florida Code of Ethics.

VIII. CONTINUING EDUCATION

The Director of Financial Services, Treasurer and appropriate staff shall annually complete eight (8) hours of continuing education in subjects or courses of study related to investment practices and products.

IX. INTERNAL CONTROLS

The City has established a number of internal controls to prevent loss of funds by fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the City.

The Director of Financial Services shall have the authority to delegate to competent staff those responsibilities as deemed appropriate, but such delegation shall accomplish, at a minimum, the following separation of responsibilities:

A. Authority to execute trades and accounting for trades.

B. Accounting for trades and check or wire transfer authority.

C. Check and wire transfer authority from bank and custodial account reconciliation responsibility.

D. Investment transactions authority is limited to the Treasurer and the Director of Financial Services within the Financial Services Department.

E. All investment transactions require the approval of the Director of Financial Services or Deputy Financial Services Director on the Investment Bid Sheet for each investment.

F. Staff, excluding the Treasurer, in the Financial Services Department reconciles the City's general depository account on a monthly basis by comparing the City's general ledger with the applicable bank account statements. The reconciliation of the general depository account would reveal any difference in investment transaction recording and the actual movement of funds.

G. Each month, an accountant reconciles investments reflected in the custodial statements with the City's records. The reconciliation is reviewed for each month by the Accounting Manager.

H. Each year the City's external auditors review internal controls as well as investment transactions by examining data on a random basis.

X. MONITORING AND ADJUSTING THE PORTFOLIO

The Investment Officer will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments and will recommend adjustments to the portfolio accordingly.

XI. AUTHORIZED INSTITUTIONS

Banks

The City shall purchase certificates of deposit only through qualified public depositories of the State of Florida as identified by the State Chief Financial Officer, in accordance with Chapter 280 of the Florida Statutes. In addition, the qualified public depository must be located within Broward, Miami-Dade or Palm Beach County. In selecting depositories, the credit worthiness of the institutions shall be considered and a comprehensive review of the prospective depositories' credit characteristics and financial history will be conducted through an outside service.

Brokers/Dealers

The Investment Officer may utilize dealers designated as "Primary Securities Dealers" by the Federal Reserve Bank of New York, or have a primary dealer within the holding company structure for purchases and sales of securities. The City may also utilize non-primary securities (regional) dealers doing business from offices located in Broward, Miami-Dade or Palm Beach County. Both the firm and the dealer for non-primary dealers must have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years. The firm must have a minimum of $500 million in annual underwriting of U.S. Government Agency Securities or Instrumentalities for the previous calendar year. The firm must have capital of no less than $10,000,000. Both primary and non-primary dealers must qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). The firms must provide the following information annually prior to executing investment trades with the City:

A. Audited annual financial statements.

B. Regulatory history, through either the Office of the Comptroller or the Currency for dealer banks, or the NASD Central Registration Depository for securities firms.

C. Statement of any pending lawsuits materially affecting the firm's business.

D. Proof of state registration.

E. Each Dealer's representative will be required to complete the City's Broker/Dealer Certification Form (Attachment "A") prior to the City conducting any business with the Dealer or its representative.

The Investment Officer may also utilize Institutional Asset Custodians to purchase mutual funds. External Investment Managers may utilize broker/dealers of their choice using best execution methods.

XII. 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 City should be properly designated as an asset of the City. The securities must be held in an account separate and apart from the assets of the financial institution. A third-party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the

State of Florida as defined in Section 658.12, Florida Statutes, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida. The City will take possession of certificates of deposit.

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

XIII. <u>OPERATING PORTFOLIO</u>

Competitive selection of investment instruments

After the Investment Officer/designated alternate 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 questions. Bids will be held in confidence until the bid deemed to best meet the investment objectives is determined and selected.

The Investment Officer/designated alternate 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 Investment Officer/ designated alternate or the Investment Advisor, competitive bidding would inhibit the selection process.

Examples of when this method may be used include:

A. When no active market exists for the issue being traded due to the age or depth of the issue.

B. When a security is unique to a single dealer, for example, a private placement.

C. When the transaction involves new issues only or issues in the “when issued” market

Acceptable current market price providers include, but are not limited to:

A. Bloomberg Information Systems.

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

C. Daily market pricing provided by the City’s custodian or their correspondent institutions.

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

Authorized investments – Operating Portfolio

For the purpose of calculating portfolio mix, the City considers the Pension Sustainabilty Portfolio to be a separate portfolio from the Operating Portfolio. Debt Service Reserve funds shall be invested in accordance with this section and the maturities for the reserve funds can exceed five years as discussed in Section XV. 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. The Investment Officer is not authorized to enter into any securities lending transactions. Funds of the government of the City may be invested in the following:

Authorized Investment- Sector Type	Maximum Allocation	Individual Issuer Limit	Maximum Maturity at time of purchase	Credit Limitations
United States Government Securities: The City may invest in negotiable direct obligations, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. Such Securities may include, but not be limited to the following: Treasury Bills Treasury Notes Treasury Bonds Treasury Strips Treasury TIPS	100%	N/A	5 years	

Authorized Investment- Sector Type	Maximum Allocation	Individual Issuer Limit	Maximum Maturity at time of purchase	Credit Limitations
United States Government Agencies: The City may invest in Bonds, debentures, notes or callable issued or guaranteed by the United States Government's agencies, provided such obligations are backed by the full faith and credit of the United States Government. Such securities may include, but not be limited to the following: United States Export - Import Bank United States Department of Housing and Urban Development Federal Financing Bank Government National Mortgage Association (GNMA) - GNMA guaranteed mortgage-backed bonds - GNMA guaranteed pass-through obligations Small Business Administration United States Maritime Administration Guaranteed - Title XI Financing New Communities Debentures - United States Government guaranteed debentures	50%	10%	5 years WAM	

Authorized Investment- Sector Type	Maximum Allocation	Individual Issuer Limit	Maximum Maturity at time of purchase	Credit Limitations
Federal Instrumentalities (United States Government sponsored agencies): The City may invest in Bonds, debentures, notes or callable issued or guaranteed by United States Government sponsored agencies (Federal Instrumentalities) which are non-full faith and credit agencies shall be limited to the following: Federal Home Loan Bank or its City Banks (FHLB) Federal National Mortgage Association (FNMA) Federal Home Loan Mortgage Corporation (Freddie-Macs) including Federal-Home-Loan-Mortgage Corporation participation certificates.	75%	25%	5 years	
Interest Bearing Time Deposit or Saving Accounts: The City may invest in 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, Chapter 280 and Chapter 218, Florida Statutes as amended from time to time.	75%	25%	3 years	

Authorized Investment- Sector Type	Maximum Allocation	Individual Issuer Limit	Maximum Maturity at time of purchase	Credit Limitations
Repurchase Agreements: The City may invest in repurchase agreements composed of only those investments based on the requirements set forth by the City's Master Repurchase Agreement. All firms entering into an agreement are required to execute a Master Repurchase Agreement prior to the execution of a repurchase agreement transaction. A third-party custodian with whom the City 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 Investment Officer and retained. 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 percent of the value and for the term of the repurchase agreement. Immaterial short-term deviations from 102 percent requirement are permissible only upon the approval of the Investment Officer.	25%	10%	90 days	
The Florida Prime Fund as administered by the Florida State Board of Administration: Note: A thorough review of any Local Government Investment Pool is required prior to investing, and on a continual basis. There shall be a questionnaire developed by the Investment Officer that will contain a list of questions that covers the major aspects of any investment pool/fund. (See Attachment B).	25%	N/A	N/A	AAAm by Standard & Poor's or the equivalent by another rating agency

Authorized Investment- Sector Type	Maximum Allocation	Individual Issuer Limit	Maximum Maturity at time of purchase	Credit Limitations
Money Market accounts: The City may invest in money market accounts placed with financial institutions qualifying as public depositories as provided for in Chapter 280, Florida Statutes.	75%	50%	N/A	
Mutual Funds (open architecture investing) Registered Investment Companies The City may invest in shares in open-end or no-load provided such funds are registered under the Federal Investment Company Act of 1940 and operated in accordance with Title 17 Code of Federal Regulations § 270.2a-7. In addition, the Investment Officer may invest 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. Note: 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 Investment Officer that will contain a list of questions that covers the major aspects of any investment pool/fund (see Attachment B).	40%	25%	N/A	AAAm by Standard & Poor's or the equivalent by another rating agency
Intergovernmental Investment Pool The City may invest in intergovernmental investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes.	30%	10%	N/A	
Florida Municipal Investment Trust **(Short Term Bond Portfolio and/or Intermediate Term Bond Portfolio)**	30%	20%	N/A	

Authorized Investment- Sector Type	Maximum Allocation	Individual Issuer Limit	Maximum Maturity at time of purchase	Credit Limitations
Foreign Obligations of the Government of Israel (State of Israel): The City may invest in obligations of the government of Israel (State of Israel) under the following guidelines: - The obligations must be US Dollar denominated~~.~~ - Must be rated by nationally recognized rating services S&P, Moody's or Fitch as described under "Credit Limitations"	5%	$10 million par	3 years	Must be rated by at least two nationally recognized rating services at BBB-/Baa3/BBB or greater. However, if such obligations are rated by only one rating service, then such rating shall be at least AA-, Aa3, or AA- or greater.

Authorized Investment- Sector Type	Maximum Allocation	Individual Issuer Limit	Maximum Maturity at time of purchase	Credit Limitations
FDIC Corporate Obligations: The City may invest in corporate obligations issued by financial institutions that participate in the FDIC's Temporary Liquidity Guarantee Program and are fully insured by the FDIC and are guaranteed by the full faith and credit of the United States Government.	50%	25%	3 years	

Authorized Investment- Sector Type	Maximum Allocation	Individual Issuer Limit	Maximum Maturity at time of purchase	Credit Limitations
Corporate Notes: The City may invest in corporate obligations or corporate notes or other evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the United States or the District of Columbia.	20%	5%	5 years	Corporate obligations or notes shall have two of the following 3 minimum ratings: A-, A3, or A-, as rated by Standard and Poor's, and/or Moody's, and/or Fitch Investors Services rating services. However, if such obligations are rated by only one rating service, then such rating shall be at least AA-, Aa3, or AA- by Standard & Poor's, or Moody's or Fitch. In the event of a split rating, the lower rating shall prevail. In the event of a downgrade, the bonds shall be sold as soon as practicable but in no event later than ten (10) trading days.

Authorized Investment- Sector Type	Maximum Allocation	Individual Issuer Limit	Maximum Maturity at time of purchase	Credit Limitations
Guaranteed Investment Contract (GIC's):	Bond proceeds		Not to exceed the construction project schedule for the bond proceeds.	Minimum of AA, Aa from Standard and Poor's and Moody's
Municipal Bonds: The City may invest in state and/or local government taxable and/or tax-exempt debt, general obligation and/or revenue bonds	20%	5%	3 years	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.

XIV. PENSION SUSTAINABILITY FUND'S PORTFOLIO

Competitive selection of investment instruments

Investment Managers and the Investment Officer shall utilize best execution method for investment transactions.

Asset Allocation

The investment strategy of the Pension Sustainability Fund's portfolio may utilize the Investment Sector Types shown in the chart below. Various separate investment approaches and allocations will be implemented under the discretion of the Investment Officer with consultation of an Investment Advisor if utilized.

Investment Sector Type
Equity
Large cap core equity
Mid-cap core equity
International equity
Convertible Securities
Real estate investment trust
Fixed Income
Fixed income (debt)
Cash and cash equivalents
Real Estate
Private real estate (commingled)

Authorized investments

Investments shall be diversified among various asset classes (categories) to the extent practicable to control risk of loss resulting from over concentration in a specific maturity, issuer, industry, instrument, dealer or bank through which financial instruments are bought and sold. The City recognizes the uncertainty that is associated with achieving the portfolio's investment objectives in light of the volatility of capital markets. The following authorized and prohibited investments were determined based on these risk and diversification considerations.

Authorized Investment- Sector Type	Maximum Allocation	Individual Issuer Limit	Maximum Maturity at time of purchase	Credit Limitations
Fixed Income Securities: United States Government Securities(as described above) United States Government Agencies(as described above) Federal Instrumentalities (United States Government Sponsored Agencies): (as described above) Interest Bearing Time Deposit or Saving Accounts: (as described above) The City may invest in short term obligations purchased individually or in pooled accounts or other collective investment funds. Short term investments include short term investment funds (STIF) provided by the custodian, money market mutual funds limited to obligations of the United States Government or its Agencies, commercial paper and banker's acceptances.	30%	1.5% of the total bond portfolios		Short term obligations must have a minimum rating from two of the three major credit rating agencies of P-1 (Moody's), A-1 (S&P) or F1 (Fitch). The issuer's long-term debt rating must have a minimum long-term debt rating of A by two of the three major credit rating agencies.

Authorized Investment- Sector Type	Maximum Allocation	Individual Issuer Limit	Maximum Maturity at time of purchase	Credit Limitations
Corporate Bonds (as described above) **Foreign Obligations <u>of the Government of Israel (State of Israel)</u>:** The City may invest in obligations of <u>the government of Israel (State of Israel)</u> under the following guidelines: - The obligations must be US Dollar denominated~~.~~ - Must be rated by nationally recognized rating services S&P, Moody's or Fitch as described under "Credit Limitations" - Commercial paper issued by foreign domiciled corporations is not permitted.	5%	1%	3 years	The obligation must have a minimum rating by two of the three major credit rating agencies of Baa2 (Moody's) or BBB (S&P/Fitch). In the event of a split rating, the lower rating shall prevail. In the event of a downgrade, the bonds shall be sold as soon as practicable but in no event later than ten (10) trading days. Obligations with a rating below A3 by Moody's rating agency or A- S&P/Fitch rating agencies shall be limited to 15% of the total portfolio. Must be rated by at least two nationally recognized rating services at BBB-/Baa3/BBB or greater. However, if such obligations are rated by only one rating service, then such rating shall be at least AA-, Aa3, or AA- or greater.

Authorized Investment- Sector Type	Maximum Allocation	Individual Issuer Limit	Maximum Maturity at time of purchase	Credit Limitations
Equities: The City may purchase various equities as described below. Domestic stocks Equity securities include domestic and international common stocks, preferred stocks, convertible securities and real estate investment trusts. Domestic stocks are issued by a corporation organized under the laws of the United States or the District of Columbia provided the corporation is listed on one or more of the recognized national stock exchanges and conforms to the periodic reporting requirements under the Securities Exchange Act of 1934. Such investments may not exceed five percent (5%) of the Investment Manager's account, based on market value.	70% at market value	3% 5% of the outstanding capital stock of the company		Domestic equity Investment Managers may only invest in foreign domiciled corporations whose shares are registered or are traded on either the New York Stock Exchange, the American Stock Exchange or are listed on the NASDAQ Stock Market
International stocks: The International equity manager shall invest in foreign securities and shall emphasize companies of developed countries. Foreign securities are defined as a security issued by a corporation that is not organized under the laws of the United States, any state or organized territory of the United States, the District of Columbia, or not domiciled inside the United States.				

Authorized Investment- Sector Type	Maximum Allocation	Individual Issuer Limit	Maximum Maturity at time of purchase	Credit Limitations
Convertible securities Convertible securities are generally considered, but not limited to, convertible bonds and convertible preferreds. Convertible securities are classified as equities and shall not be held to the rating standards of fixed income investments. The following convertible security limitations are based on the market value of the Investment Manager's convertible portfolio:		144 A Securities shall be limited to 35%. Cash shall not exceed 25%. Synthetic convertibles shall not exceed 30%. Not more than 10% shall be invested in any one issuer Foreign convertibles, as defined in the international equity section above, shall be limited to 25%.		

Authorized Investment- Sector Type	Maximum Allocation	Individual Issuer Limit	Maximum Maturity at time of purchase	Credit Limitations
The City may invest in publicly Traded Real Estate (REIT's). Publically traded real estate shall be limited to real estate investment trust (REIT) funds. Private Real Estate The City may invest in Commingled Fund Securities When the City determines that it is in the best interest of the portfolio, an investment in a commingled vehicle, such as a collective trust or institutional mutual fund is permitted, provided that: 1. The fund prospectus shall be reviewed to determine if the commingled fund policies are appropriate. 2. Commingled and mutual fund investments are dictated by the policies of those funds and may be in conflict with the investment objectives of the portfolio. 3. Commingled funds commonly include futures, securities lending and options in their investment strategy. The City shall consider the utilization of such strategies in its determination to invest in the funds. The City may invest in Index FundsThe City may invest in an index fund, including passive index funds, a type of mutual fund constructed to match or track the components of a market index, such as the Standard & Poor's 500 Index (S&P 500) in order to provide broad market exposure, low operating expenses and low portfolio turnover.				

Rebalancing:

Since market conditions will favor one approach over another, during 12 to 36 month time periods, the asset allocation shall require periodic rebalancing. Because the long-term approach of the Portfolio is to achieve blended returns of various separate investment approaches, it is essential that relative weightings do not become over or under-allocated for long periods of time. Accordingly, at least annually, each asset category shall be considered for rebalancing under the guidance of the Investment Advisor.

XV. DEBTSERVICE FUNDS/BOND COVENANTS

Any debt service requirements or bond covenants will supersede this Investment Policy.

XVI. EXISTING INVESTMENTS

Any investments currently held that do not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies so invested shall be reinvested only as provided for in this policy.

XVII. DERIVATIVES AND REVERSE REPURCHASE AGREEMENTS

Investment in any derivative products or the use of reverse repurchase agreements is prohibited. 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. For example this includes but is not limited to the following: CMO, IO, or PO instruments. Derivatives utilized by the mutual funds or bond funds to manage cash flow are excluded.

XVIII. DIVERSIFICATION

The Investment Officer shall diversify use of investment instruments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. Diversification strategies shall be determined and revised periodically by the Investment Officer and Director of Financial Services.

Liquidity

Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through the operating bank account, marketable U.S. Treasury bills, overnight delivery vs. payment repurchase agreements or State Pool Funds. At least 10 percent of the portfolio shall be held in such instruments.

Credit Risk

Minimizing Credit Risk will be accomplished by limiting the maximum percentage that may be invested in any one entity or instrument at any one time, as outlined in this policy.

Market Risk

Risks of market price volatility shall be controlled through maturity diversification limitations established by this policy.

XIX. PERFORMANCE MEASUREMENTS

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

Operating Portfolio (Short-term) Performance Measures

A. The Merrill Lynch United States 91-Day Treasury Bill Index yield or a comparable index 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 investment return.

C. Investment performance will be reported on both yield and total rate of return basis and compare results to the above appropriate stated benchmarks.

Pensions Sustainability Fund's Portfolio (Long-term) Performance Measures

The Pension Sustainability Funds' Investment Managers shall have full discretion in the selection and disposition of securities, but shall be limited by the investment standards and guidelines set forth in Section XIV Authorized Investments. The following performance measures shall be used as objective criteria for evaluating the effectiveness of each Investment Manager:

A. Total Portfolio Performance Standards

The performance of the pension sustainability portfolio shall be measured over rolling three and five-year periods. These periods are considered sufficient to accommodate the market cycles experienced with investments. The performance shall be compared to the return of an appropriate benchmark.

B. Investment Approach Performance Benchmarks

Over a market cycle, the long-term objective for each manager is to add value to a market benchmark. Investment Managers are expected to meet or exceed the return of the benchmark. The following are the benchmarks used to monitor each Investment Manager:

Style	***Benchmark Index***
Large Cap Growth	Russell 1000 Growth
Large Cap Value	Russell 1000 Value
Mid Cap Equity	S&P Midcap 400
International Equity	MSCI ACWI ex US
Convertible Securities	Merrill Lynch All U.S. Convertible
Publically Traded Real Estate	U.S. Real Estate Securities
Private Real Estate	NCREIF ODCE
Fixed Income	BCA Custom Bond Benchmark
Cash and Cash Equivalents	91 day U.S. Treasury Bills

XX. MONITORING OF EXTERNAL INVESTMENT MANAGERS AND PERFORMANCE

Third-Party Custodian Reporting

The third-party custodian shall fully inform the City of all transactions:

A. The third-party custodian shall forward all proxies to the Investment Managers as soon as practicable but in no event later than ten calendar days of receipt.

B. On a monthly basis, the third-party custodian shall supply a statement of account that shall include a detail and summary of all receipts and disbursements and the cost and the market value of all assets.

External Investment Manager Reporting

Investment Managers provide periodic reporting to evaluate performance and compliance with the Investment Policy.

A. On a quarterly basis, each Investment Manager shall provide a written report delivered to the City within 30 days of the end of the quarter.

1. Account balances and performance.
2. A summary of common stock diversification for equity managers and attendant schedules.
3. Forecast of the market and economy.
4. Portfolio analysis and characteristics.
5. Adherence to the Investment Policy including a statement affirming compliance with the authorized investments.
6. Noncompliance with the Investment Policy:

a. Each manager shall disclose any securities that are not in compliance with authorized investments in each quarterly report.
b. Each Investment Manager's quarterly report shall list separately any security held or sold during the period whose value has diminished 15% from purchase price and explain in writing to the City why such securities remain in the account.

B. On at least an annual basis, each Investment Manager shall communicate the following to the City.

1. Each Investment Manager shall present to the City and review performance results, economic outlook, investment strategy and tactics and other pertinent matters affecting the portfolio.
2. Each equity Investment Manager shall report to the City on an annual basis with respect to proxies, the issues, votes and dates. A written explanation is required for any vote not recommended by management or not voted.

C. Immediate communication with the City is required for material events, including:

1. The Investment Manager shall provide immediate written and telephone notice to the City of any significant market related or non-market related event, specifically including, but not limited to, any deviation from the standards set forth in authorized investments.
2. If an Investment Manager's account holds securities, which complied with authorized investments at time of purchase, but are subsequently downgraded while held, the investments are no longer authorized. The manager shall dispose of such securities as soon as practicable but in no event later than ten (10) trading days.

Investment Reporting/ External Investment Manager Monitoring

Monthly reporting will be required for accounting purposes for all investments whether managed by an external Investment Manager or whether index funds are utilized.

Quarterly reports from an Investment Advisor or the City Investment Officer shall evaluate the performance of the total externally managed portfolio and each Investment Manager hired by the City.

On at least a quarterly basis, the Investment Advisor or Investment Officer shall present a monitoring report. The written report shall be delivered to the City within 60 days of the end of the quarter. The report shall include:

A. Evaluation of the rate of return and relative performance of the portfolio.

C. Each Investment Manager's adherence to this Investment Policy Statement. The total overall portfolio adherence to the Investment Policy Statement.

C. Material changes in the Investment Manager's organization, investment philosophy or personnel. Charges filed against the organization or communication from any government agency.

D. Comparisons of the Investment Manager's results to the index and peer group described in the benchmark objective.

E. The risk associated with each Investment Manager's portfolio shall be measured by the variability of quarterly returns (standard deviation). Such vulnerability shall not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark index and peer group.

At least annually, the City shall review the Investment Officer or Investment Advisor reporting on the Investment Manager's performance relative to its peers of like investment style or strategy. Each Investment Manager shall be required to perform in accordance with the performance standards and the criteria for Investment Manager review.

Criteria For External Investment Manager Review

The following are standards by which judgments of the ongoing performance of an Investment Manager shall be made.

A. Four consecutive quarters of the investment performance being below the 40^{th} percentile ranking.

B. Three-year or five-year rolling total investment returns below that of the 40^{th} percentile manager.

C. A three-year or five-year period within the "southwest quadrant" of the risk/return scatter gram.

D. Standard deviation for the account in excess of the manager's index.

E. Any significant change in professional staff, a large loss or increase in business or changes in ownership or control.

F. A change in fundamental investment philosophy by the manager.

If, at any time, any one of the foregoing conditions occurs, the Investment Manager shall be notified and advised of the City's concern. An Investment Manager may be replaced at any time and for any reason or for no reason at all.

XXI. ACCOUNTING AND REPORTING

Accounting method

Investments will be carried at cost and marked to market value. Gains or losses from investments will be credited or charged to investment income at the time of sale. Premiums or discounts on securities may be amortized over the life of the securities. The City shall comply with Government Accounting Standards Board (GASB) standards.

Reporting requirements

The Investment Officer shall generate reports for management purposes and in conformance with applicable statutory requirements. In addition, the Investment Officer shall submit quarterly to a review committee, an investment report that summarizes recent market conditions, economic developments and anticipated investment conditions. The report shall summarize the investment strategies employed in the most recent quarter and describe the portfolio in terms of investment securities, maturities, risk characteristics and other features. The report shall explain the quarter's total investment return and compare the return with appropriate benchmarks. The Investment Officer will report a summary of the portfolio to the City Council as the governing body on an annual basis in accordance with Florida State Statutes. The Investment Officer shall report any occurrences of non-compliance with this policy in writing to the Director of Financial Services as soon as reasonably possible once he or she is aware of the occurrence.

Valuation of Illiquid Investments

An illiquid investment is an investment for which a generally recognized market is not available or for which there is no consistent or generally accepted pricing mechanism. If illiquid investments are utilized, the expected benefits / risks and the methods for monitoring and measuring performance shall be determined. A detailed list of illiquid investments shall be maintained including security type, issuer, nature, extent, purpose, control acquired, voting rights, restrictions on material rights of ownership, and contract arrangements. The Investment Advisor shall provide expertise to properly evaluate and manage illiquid investments. For each annual report as of September 30, the City shall verify the determination of the fair market value of illiquid investments, ascertain that the determination complies with all applicable state and federal requirements and disclose each illiquid investment.

The investment officer shall provide other such reports and information as deemed reasonable, upon request, from other internal and external sources.

Municipal Advisor Rule

Brokers and Dealers who execute investment trades for the City of Boca Raton portfolio typically require a form to be signed stating that they are not acting in a Municipal Advisory Role. The Director of Financial Services shall be authorized to sign these forms for the City's authorized broker/dealers.

Effective Date

This policy shall become effective in accordance with Florida Statute, which is 31 days after it is filed with the City Clerk.

Attachment “A”

CITY OF BOCA RATON
201 W. PALMETTO PARK ROAD
BOCA RATON, FLORIDA 33432-3795

Broker/Dealer Certification

The firm______________________________ and the broker is a registered securities dealer as defined and authorized by the Financial Industry Regulatory Authority and the Securities Exchange Commission. The employees of the firm or financial institution offering securities or investments to the City of Boca Raton, Florida are trained in the precautions appropriate to public-sector investments and are required to familiarize themselves with all the City’s investment objectives, policies and constraints. I have reviewed and fully understand the terms and conditions set forth in The City of Boca Raton’s Investment Policy. I agree to undertake reasonable efforts to preclude imprudent transactions involving the City’s funds. Furthermore, I agree to disclose any potential conflicts or risks to public funds that might arise out of business transactions between the firm and the City of Boca Raton.

[Name of Party]	[Name of Party]
By ______________________________	By ______________________________
Title ______________________________	Title ______________________________
Date ______________________________	Date ______________________________

Attachment “B”

Due Diligence for Money Market Funds and Local Investment Pools

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

— A description of eligible investment securities, and a written statement of Investment Policy and objectives.
— A description of interest calculations and how it is distributed, and how gains and losses are treated.
— A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
— A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
— A schedule for receiving statements and portfolio listings.
— Are reserves, retained earnings, etc. utilized by the pool/fund?
— A fee schedule, and when and how is it assessed.
— Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?
__ Obtain the rating agency ratings for the investment if available.

Attachment “C”

CASH AND INVESTMENT MANAGEMENT TERMS

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.”

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

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

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.

Best Execution. The responsibility of investment services firm (such as a broker) to provide the most advantageous order execution for their customers. Best execution requires brokers to get the best price for a trade in the shortest time frame. Basically, it is a precautionary measure placed on brokers by the SEC to ensure that investors' best interest are always served.

Bond Market Association (BMA). 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 BMA also recommends bond market closures and early closes due to holidays.

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 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.

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 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. For hedging purposes, common derivatives are options, futures, swaps and swaptions. All Collateralized Mortgage Obligations ("CMOs") are 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).

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

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.

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.

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).

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.

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, 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.

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. (Fitch). One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Floating Rate Note. Notes whose interest rate is adjusted according to the interest rates of other financial instruments. These instruments provide protection against rising interest rates, but pay lower yield than fixed rate notes.

Foreign Domiciled Corporation. A corporation that operates or has headquarters in the United States but is registered or chartered outside the United States for legal and tax purposes.

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 is actually full faith and credit of the U.S.).

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 SLUGs."

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. Some consider GSEs to be stealth recipients of corporate welfare. 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.

Growth Stock. A growth stock usually does not pay a dividend, as the company would prefer to reinvest retained earnings in capital projects. Most technology companies are examples of growth stocks.

Guaranteed Investment Contract (GIC). Insurance contracts that guarantee the owner principal repayment and a fixed or floating interest rate for a predetermined period of time.
Index. A compilation of statistical data that tracks changes in the economy or in financial markets.

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

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.

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; 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."

Large Cap Equity. A term used by the investment community to refer to companies with a market capitalization value of more than $10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share. Equity refers to the company's shares of stock.

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. Also, a term describing the marketability of 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, (i.e., Florida State Board of Administration's Florida Prime Fund).

Market Interest Rate. The interest rate offered most commonly on deposits in banks, or other investment vehicles determined by supply and demand.

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 Bond Market Association (BMA) 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.

Mid-cap equity. A stock of a mid-sized companies. A company's size is determined by its market capitalization, with mid-sized firms generally ranging from $2 billion to $10 billion in market cap.

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 “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 (Moody’s). One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

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

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

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

National Association of Securities Dealers (NASD). Organization of brokers and dealers who trade securities in the United States, supervised by the SEC, and which provides regulatory exams for industry participants.

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 which includes securities, cash, and any accrued earnings, subtracting this 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.” 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.

Offered Price. See also "Ask Price."

Open Architecture Investing. The option offered by an investment firm to let its clients invest not just in that firm's financial products, but also in competing firms' financial products. Open architecture ensures that a client can satisfy all their financial needs and that the investment firm can act in each client's best interests by recommending the financial products best suited to that client, even if they aren't proprietary products. Open architecture helps investment firms avoid the conflict of interest that would exist if the firm only recommended its own products.

Open Market Operations. 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. 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.

Preferred Stock. A class of ownership in a corporation that has a higher claim on its assets and earnings than common stock. Preferred shares generally have a dividend that must be paid out before dividends to common shareholders, and the shares usually do not carry voting rights.

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

Primary Dealer. Any of a group of designated government securities dealers designated by to 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 considered the largest players in the U.S. Treasury securities market.

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.

Private Real Estate. Private Equity Real Estate is an investable asset class that consists of debt and equity investments in the property markets allowing multiple investors to pool their funds.

Prudent Expert 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 – Pursuant to Florida Statute 280, means any bank, saving 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 seq.
4. Meets all requirements of Florida Statute 280, Security for Public Deposits
5. Has been designed by the Investment Officer as a qualified public depository.

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

Real Estate Investment Trust (REIT). A security that sells like a stock on the major exchanges and invests in real estate directly, either through properties or mortgages. REITs receive special tax considerations and typically offer investors high yields, as well as a highly liquid method of investing in real estate

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).”

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 a delivery-versus-payment (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 Bond Market Association (BMA) 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 Lending. An arrangement between an 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.

Securities Lending Agreement. Requires that the borrower provides the lender with collateral, in the form of cash or non-cash securities, of value equal to or greater than the loaned securities plus agree upon margin.

State and Local Government Series (SLUGs). Special nonmarketable certificates, notes and bonds offered to state and local governments as a means to invest proceeds from their own tax-exempt financing. Interest rates and maturities comply with IRS arbitrage provisions. Slugs are offered in both time deposit and demand deposit forms. Time deposit certificates have maturities of up to one year. Notes mature in one to ten years and bonds mature in more than ten years. Demand deposit securities are one-day certificates rolled over with a rate adjustment daily.

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 (S&P). One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Swap. Trading one asset for another.

Synthetic Convertibles. A bond and a warrant or right that are issued separately, but are combined together to create the same effect as a convertible bond.

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.

Third-Party Custodian. An individual or entity that is involved in a transaction but is not one of the principals. The third party often has a lesser interest in the transaction than the principals.

Tennessee Valley Authority (TVA). One of the largest 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 Investment 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. The Treasury stopped issuing Treasury Bonds in August 2001.

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, 5-year and 10-year Treasury Notes.

Treasury Strip (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).

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. The SEC net capital rule 15c3-1 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.

Value Stock. A stock that tends to trade at a lower price relative to its fundamentals (i.e. dividends, earnings, sales, etc.) and thus considered undervalued by a value investor. Common characteristics of such stocks include a high dividend yield, low price-to-book ratio and/or low price-to-earnings ratio.

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."

144 A Securities. Rule 144A. Securities Act of 1933, as amended (the "Securities Act") provides a safe harbor from the registration requirements of the Securities Act of 1933 for certain private resales of minimum $500,000 units of restricted securities to qualified institutional buyers.

15c3-1. Securities and Exchange Commission Rule 15c3-1 sets minimum net capital requirements for broker-dealers.