

OFFICE OF COMPTROLLER



ORANGE  
COUNTY  
FLORIDA

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**MEMORANDUM**

**DATE:** January 3, 2018

**TO:** Mayor Teresa Jacobs  
Board of County Commissioners

**FROM:** Phil Diamond, County Comptroller *PAD*

**SUBJECT:** Adoption of Revisions to the Investment Policy

I have recently completed the annual review of the County's Investment Policy. The revisions include changes recommended by the Comptroller's Investment Advisory Committee. I am sending, for your review and adoption, a copy of the Policy incorporating the recommended changes.

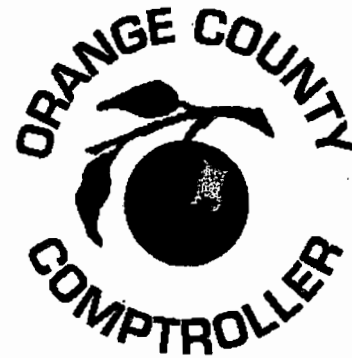
The changes do not affect the County's primary investment objectives. In priority order the objectives are safety, liquidity and return on investment. To assist in your review, the revisions include the following:

- Renaming the Investment Committee the Investment Advisory Committee.
- Deleting the description of the investment strategy as *passive*.
- Updating references to S&P Global for its name change from Standard & Poor's.

This item is scheduled for the Board meeting on January 23, 2018. Please call me if you have any questions you would like to discuss before the meeting.

**Action Requested: Adoption of Orange County Comptroller's Office Investment Policy Effective Date: January 23, 2018**

cc: Ajit Lalchandani, County Administrator  
Eric Gassman, Deputy County Administrator  
Randy Singh, Assistant County Administrator



**ORANGE COUNTY COMPTROLLER'S OFFICE**

**INVESTMENT POLICY**

ORANGE COUNTY COMPTROLLER

INVESTMENT POLICY

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# ORANGE COUNTY COMPTROLLER

## INVESTMENT POLICY

### I. POLICY STATEMENT

It is the policy of the County Comptroller to invest public funds held by or for the benefit of the Orange County Board of County Commissioners in a manner which will safely preserve portfolio principal, provide adequate liquidity to meet cash flow needs, and optimize returns while conforming to all federal, state, and local laws governing the investment of public funds.

### II. SCOPE

This investment policy applies to all investment activities and financial assets of the Orange County Board of County Commissioners excluding funds invested in the Orange County Retiree Health Care Benefit Trust, which was created solely to provide funding and payment of post-retirement health care and other post-retirement benefits to beneficiaries. The funds covered by this policy are accounted for and incorporated in the County's Comprehensive Annual Financial Report and include Governmental Funds (General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds), Proprietary Funds (Enterprise Funds, Internal Service Funds) and Agency Funds.

### III. INVESTMENT OBJECTIVES

The primary objectives, in priority order, of the County Comptroller's investment activities shall be:

**Safety:** Safety of principal is the foremost objective of the investment program. Investments of the County shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the County Comptroller will control risks and diversify its investments by investing funds among a variety of securities offering independent returns and maturities, as well as among a variety of securities issuers and financial institutions.

**Liquidity:** The County Comptroller's investment program will remain sufficiently liquid to enable the County to meet all operating, payroll and capital requirements which might be reasonably anticipated.

**Return on Investment:** The County Comptroller's investment policy shall be designed with the objective of maximizing the return on the portfolio commensurate with minimizing investment risk given various economic cycles and the cash flow characteristics of the portfolio.

#### IV. PRUDENCE

The County Comptroller shall use the "prudent person" standard in the management of the overall investment portfolio. The County Comptroller, or persons performing the investment functions, acting as a "prudent person" in accordance with these written policies and procedures, and exercising due diligence, shall not be responsible for an individual security's credit risk or market price changes provided that appropriate monitoring efforts are performed.

The "prudent person" standard is herewith understood to mean the following: Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Investments in authorized instruments shall not be made until the individuals responsible for making investment decisions have developed sufficient understanding of the securities and have the expertise to manage them.

#### V. ETHICS AND CONFLICT OF INTEREST

Comptroller staff involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. Employees involved in the investment process shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any material personal financial/investment positions that could be related to the performance of the County's investment portfolio and shall refrain from personal investment transactions with the same individual with whom business is conducted on behalf of the County.

#### VI. INVESTMENT PERFORMANCE AND REPORTING

A monthly investment report shall be provided to the County Comptroller, Investment Advisory Committee members and appropriate Board and Comptroller staff. The report shall include a breakdown of the portfolio as well as its overall performance during that period. Annually, a recapitulation report will be presented to the Board of County Commissioners, which shall include securities in the portfolio by class or type, book value, income earned, market value and yield.

Performance measurements shall be utilized which are appropriate to the nature and size of the portfolio. The investment portfolio shall be designed with the objective of obtaining a rate of return throughout various budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs. The basis used to determine whether appropriate and suitable market yields are being achieved shall be to identify a comparable benchmark to the portfolio's weighted average maturity (e.g., The six-month constantly maturing Treasury bill). At a minimum, portfolio performance shall be measured by comparing its year-to-date earnings with

budgeted year-to-date earnings and its monthly "effective rate of return" with the monthly return on the six-month constantly maturing Treasury bill. Benchmarks may change over time based on the portfolio's weighted average maturity.

The County Comptroller shall be notified immediately upon deviations from currently approved investment policies.

## VII. DELEGATION OF AUTHORITY

Responsibility for the investment program is vested with the County Comptroller. The County Comptroller hereby delegates the responsibility for the administration of the investment program to the Treasury Manager, who shall maintain an Investment Procedures and Internal Controls Manual based on this policy. No person may engage in an investment transaction except as stated in the Internal Controls Section of this policy. The Treasury Manager shall be responsible for monitoring internal controls and the activities of subordinate staff.

## VIII. AUTHORIZED INSTRUMENTS

As established by County ordinance, the Treasury Manager or authorized Comptroller staff shall purchase or sell investment securities at prevailing market rates. Authorized instruments are as follows:

- A. Florida Local Government Surplus Funds Trust Fund also known as Florida PRIME (SBA)
- B. Negotiable direct obligations of or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. Such securities will include, but not be limited to, the following:
  - 1. Cash Management Bills
  - 2. Treasury Securities - State and Local Government Series (SLGS)
  - 3. Treasury Bills
  - 4. Treasury Notes
  - 5. Treasury Bonds
  - 6. Treasury Strips
  - 7. Treasury Inflation-Indexed Securities, commonly known as Treasury Inflation-Protected Securities (TIPS)
- C. Bonds, debentures, or notes issued and guaranteed by the full faith and credit of United States Government-sponsored enterprises (Federal Instrumentalities) which are not guaranteed by the full faith and credit of the United States Government limited to the following:



1. Federal Farm Credit Bank (FFCB)
  2. Federal Home Loan Bank or its district banks (FHLB)
  3. Federal National Mortgage Association (Fannie Mae)
  4. Federal Home Loan Mortgage Corporation (Freddie Mac)
- D. Non-negotiable interest bearing time certificates of deposit, bank money market deposits or savings accounts in banks organized under the laws of this state and in national banks organized under the laws of the United States and doing business and situated in this state, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes and provided that the bank is not listed with any recognized credit watch information service.
- E. Repurchase agreements comprised of only those investments as authorized in Sections B and C with any bank or securities broker/dealer on the Federal Reserve's list of primary dealers subject to the jurisdiction of the Securities Investors' Protection Corporation if such dealer or bank has an uninsured, unsecured and unguaranteed obligation rating of "Prime-1" or "A" or better by Moody's Investors Service (Moody's) or any successors thereof, and "A-1" or "A" or better by S&P Global (S&P), or any successors thereof, provided:
- (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and
  - (2) the securities shall be held free and clear of any lien by the County or an independent third party acting solely as an agent for the County and such third party is (i) a Federal Reserve Bank, (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of no less than \$25 million; and
  - (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R., 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the County; and
  - (4) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%; and
  - (5) the County will value the collateral securities no less frequently than weekly and the County may liquidate the collateral securities if any deficiency in required collateral percentage has been brought to the attention of the issuer by 10:00 A.M. New York time and is not restored by the next business day.
- F. Bankers' acceptances which are inventory-based issued by a domestic bank which has at the time of purchase, an unsecured, uninsured and unguaranteed obligation rating of at least "Prime-1" and "A" by Moody's and "A-1" and "A" by S&P and ranked in the top fifty (50) domestically chartered insured commercial banks that have consolidated assets of \$300 million or more as compiled and reported quarterly by the Federal Reserve Board in its Large Commercial Banks release. Bankers' acceptances are prohibited as a permitted investment of bond construction funds, debt service reserve funds or sinking funds.

- G. Commercial Paper of any United States company which is rated, at the time of purchase, "Prime-1" by Moody's and "A-1" by S&P (prime commercial paper). If backed by a letter of credit (LOC), the long-term debt of the LOC provider must be rated at least "A" by at least two nationally recognized rating agencies. The LOC provider must be ranked in the top fifty (50) domestically chartered insured commercial banks that have consolidated assets of \$300 million or more as compiled and reported quarterly by the Federal Reserve Board in its Large Commercial Banks release. Commercial paper is prohibited as a permitted investment of bond construction funds, debt service reserve funds and sinking funds.
- H. State and local government taxable and tax-exempt debt, general obligation and revenue bonds rated at least "Aa" by Moody's and "AA" by S&P for long-term debt, or rated at least "MIG-2" by Moody's and "SP-2" by S&P for short-term debt, but only in situations necessary to comply with arbitrage regulations.
- I. Securities and Exchange Commission (SEC) qualified constant net asset value money market mutual funds which authorize only Treasuries and Treasury-backed repurchase agreements and, for arbitrage compliance only, investments described in Section H, provided that said funds contain no derivatives. The funds must have an S&P rating criteria of "AAAm" or "AAAg."
- J. Securities that derive their value from underlying securities, (i.e., derivatives) are specifically prohibited, except for TIPS which are described in Section B. TIPS are a derivative security according to Section 218.415(5), Florida Statutes.
- K. Due Diligence Review of Investment Pools and Money Market Mutual Funds

A thorough investigation of any pooled investment funds, including mutual funds, is required prior to investing, and on a continual basis. To accomplish this, the following information will be obtained and used to evaluate the suitability of the pooled fund.

- (1) A description of eligible investment securities, and a written statement of investment policy objectives.
- (2) A description of interest calculations and how it is distributed, and how gains and losses are treated.
- (3) A description of how the securities are safeguarded (including the settlement processes), and how often are the securities priced and the program audited.
- (4) A description of who may invest in the program, how often, and what size deposit and withdrawal are allowed.
- (5) A schedule for receiving statements and portfolio listings.
- (6) A determination as to whether reserves, retained earnings, etc. are utilized by the pool/fund.

- (7) A fee schedule and when and how it is assessed.
- (8) A determination as to whether the pool/fund is eligible for bond proceeds and whether it will accept such proceeds.

IX. INVESTMENT MATURITY AND LIQUIDITY

To minimize the impact of market risk, it is intended that investments will be held to maturity, where applicable. However, investments may be sold prior to maturity for cash flow purposes, appreciation purposes or to limit losses; however, no investment shall be made based solely on earnings anticipated from capital gains.

- A. To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of current (13 months) operating funds shall have maturities of no longer than (13) months. Investments of non-current (beyond 13 months) operating funds shall have maturities of no longer than 60 months. The amount of non-current funds to be invested beyond 13 months shall be approved by the County Comptroller and reviewed at least quarterly. Investments of bond reserves, construction funds, and other non-operating funds shall have a term to coincide as nearly as practicable with the expected use of funds and in accordance with debt covenants, but in no event shall exceed ten (10) years. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds.
- B. Investments do not necessarily have to be made for the same length of time that the funds are available. The basic investment principles that can be considered in selecting investment maturities are listed below:
  - 1. Keep maturities short in a period of constantly rising interest rates based on Treasury bill auctions or the daily federal funds rate.
  - 2. Keep maturities short in a period of a flat or an inverted Treasury yield curve.
  - 3. Maturities should be lengthened when the Treasury yield curve is normal and is expected to remain that way based on economic reports taken as a whole. The yield curve is normal when short-term rates are lower than long-term rates.
  - 4. Maturities should be lengthened when interest rates are expected to fall based on economic reports taken as a whole.
  - 5. The yield curves of the market should be analyzed for significant breaks in yields over various maturity dates. The points at which the yield curve breaks are the points at which there are significant marginal declines in yields for incremental changes in the maturity dates. Investments should be made at these breaks in the yield curve so that yields will be maximized.

## **X. OFFER AND BID POLICY**

After the Treasury Manager or other authorized Comptroller staff 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 investment, a minimum of three (3) banks and/or dealers must be contacted and asked to provide offers (quotes) on the securities in question. Offers will be held in confidence until the best offer is determined and awarded. However, on an exception basis, securities may be purchased utilizing the comparison to current market price method. Acceptable current market price providers include, but are not limited to:

1. Bloomberg Information System or other on-line service.
2. The Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing.
3. Daily market pricing provided by the County's custody agents or their correspondent institutions.

Authorized staff shall utilize the competitive offer process to select the securities to be purchased or the competitive bid process to sell securities. Selection by comparison to a current market price, as indicated above, shall only be utilized when, in the judgment of the Treasury Manager, soliciting competitive offers or bids would inhibit the selection process. Further, this method shall only be used after approval has been obtained from any of the following positions: The Deputy Director of Finance and Accounting, Director of Finance and Accounting, Assistant Comptroller/Fiscal Division, Chief Deputy Comptroller, or County Comptroller. Examples of when this method may be used include:

1. When time constraints due to unusual circumstances preclude the use of the competitive offer or bid process.
2. When no active market exists for the issue being traded due to the age or depth of the issue.
3. When a security is unique to a single dealer, for example, a private placement.
4. When the transaction involves new issues or issues in the "when issued" market.

If the maturing investment is a certificate of deposit, then of the contacts made, one shall be the present holder of the funds subject to the portfolio diversification requirements in this policy. Due to the cost of safekeeping, one business day repurchase agreements less than \$1,000,000 and overnight sweep repurchase agreements will not be subject to the competitive offer process and may be placed with the depository bank relating to the demand account for which the repurchase agreement was purchased.

Notwithstanding the above, in order to afford local banks within the County opportunities to enhance the economics of the local area, an aggregate face value of up to \$1,000,000 in certificates of deposit may be purchased from a bank as described in Section VIII, D. provided the following additional conditions have been satisfied:

- A. The bank is located within the boundaries of Orange County or has a branch office located within the boundaries of Orange County.
- B. The bank matches the highest bid of three or more bids from other banks as described in Section VIII, D.

When invested funds are needed in whole or in part for purposes originally intended or for more optimal investments, the County Comptroller may sell such investments at current market price or the best price determined by competitive bid, and place the proceeds into the appropriate account(s) of the County.

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

Assets held shall be diversified to control risks resulting from over concentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which these instruments are bought and sold. Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the Authorized Comptroller Staff as defined in Section XVI, F.

#### **XII. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS**

Authorized Comptroller staff shall only purchase securities from financial institutions which are qualified public depositories as designated by the Treasurer of the State of Florida or from primary securities dealers as designated by the Federal Reserve Bank of New York, or dealers which are certified by Orange County's Business Development Office as a Minority/Women Business Enterprise and have an office located within the State of Florida. Commercial paper and bankers' acceptances may be purchased from direct issuers of such instruments.

Repurchase agreements shall only be entered into with primary securities dealers as designated by the Federal Reserve Bank of New York, financial institutions which are state qualified public depositories, or securities dealers which are certified by Orange County's Minority/Women Business Enterprise Office as a Minority/Women Business Enterprise and have an office located within the State of Florida. The County Comptroller will require the County Comptroller's Master Repurchase Agreement to be executed prior to any repurchase transactions.

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

The County Comptroller will execute a Third-Party Custodial Safekeeping Agreement with a depository chartered by the United States Government or the State of Florida. All securities purchased and/or collateral obtained by the County Comptroller shall be properly designated as an asset of the County and held in an account separate and apart from other assets held by the depository and no withdrawal of such securities, in whole or in part, shall be made from safekeeping except by Authorized County Comptroller staff.

The Third-Party Custodial Safekeeping Agreement shall include letters of authority from the County Comptroller, details as to responsibilities of each party, notification of security purchases, sales, delivery, repurchase agreements, wire transfers, safekeeping and transactions costs, procedures in case of wire failure or other unforeseen mishaps including liability of each party.

#### **XIV. MASTER REPURCHASE AGREEMENT**

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

#### **XV. COLLATERALIZATION**

The Florida Security for Public Deposits Act requires depositories to post certain types of collateral for public funds above the FDIC insurance amounts. The collateral requirements apply to bank deposits, both active (checking and savings accounts) and inactive (non-negotiable certificates of time deposit).

Collateralization will also be required on repurchase agreements pursuant to the Master Repurchase Agreement. To anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of the market value of principal and accrued interest and the value shall be marked to market at least monthly and adjusted, at a minimum, whenever the collateralization level falls below 100%. The County requires the collateral to be either United States Government Securities and/or United States Federal Agencies securities.

In accordance with the provisions of Section XIII., collateral will be held by an independent third party. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the County Comptroller and retained. The right of collateral substitution is permitted.

#### **XVI. INTERNAL CONTROLS**

The Treasury Manager shall establish and monitor a set of written internal controls designed to protect the County's funds and ensure proper accounting and reporting of the securities transactions. Such internal controls shall include, but not be limited to, the following:

- A. All securities purchased or sold will be transferred only under the "delivery versus payment" (D.V.P) method to insure that funds or securities are not released until all criteria relating to the specific transaction are met.
- B. The Treasury Manager or Authorized Comptroller staff will accept, on behalf of and in the name of Orange County, bank trust receipts or confirmations as

evidence of actual delivery of the obligations or securities in return for investment of funds.

- C. Trust receipts or confirmations shall fully describe the various obligations or securities held. The receipt or confirmation shall state that the investment is held in the name of Orange County.
- D. The actual obligations or securities, whether in book-entry or physical form, on which trust receipts or confirmations are issued may be held by a third-party custodial bank and/or institution or a designated correspondent bank which has a correspondent relationship to the County Comptroller's third-party custodian.
- E. Other internal controls such as:
  - 1. Written documentation of telephone transactions
  - 2. Adequate separation of duties
  - 3. Custodial safekeeping
  - 4. Supervisory control of employee actions and operations review
  - 5. Performance evaluations and reporting, interim and annual
- F. The Cash and Investment Supervisor performs all daily investment activity under the supervision of the Treasury Manager. The Treasury Section is under the direct control of the Director and Deputy Director of Finance and Accounting.

The following positions are designated by the County Comptroller as having the authority to initiate investment activities as outlined in the Internal Controls document:

Chief Deputy Comptroller  
Assistant Comptroller/Fiscal Division  
Director of Finance and Accounting  
Deputy Director of Finance and Accounting  
Treasury Manager  
Cash and Investment Supervisor  
Cash and Investment Officer  
Other designees by the County Comptroller or Chief  
Deputy Comptroller on an as needed basis

- G. Internal controls shall be reviewed by independent auditors engaged by the County as part of their financial audit.

## **XVII. PORTFOLIO COMPOSITION**

The following are the guidelines for investments and limits on security issues, issuers, and maturities as established by the County Comptroller. The County Comptroller or the County Comptroller's designee shall have the option to further restrict or increase investment percentages from time to time based on market conditions. Any changes to

the portfolio composition guidelines must be in writing from the County Comptroller directed to the Treasury Manager. Matured investments of debt service funds of an amount equal to the next principal or interest payment may be temporarily invested until paid. In the event that temporary investments of bond proceeds or debt service funds exceed portfolio composition limits, the limit is waived.

A. Florida Local Government Surplus Funds Trust Fund also known as Florida PRIME (SBA)

1. Investment Authorization  
The Treasury Manager may invest in the SBA.
2. Portfolio Composition  
A maximum of 40% of the portfolio may be invested in the SBA. Bond proceeds may be temporarily invested in the SBA until alternative investments have been purchased.
3. The combination of the SBA investment and Money Market Mutual Funds shall not exceed a maximum of 50% of the total portfolio.

B. United States Government Securities

1. Purchase Authorization  
The Treasury Manager may invest in negotiable direct obligations of or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. Such securities will include, but not be limited to, the following:
  - Cash Management Bills
  - Treasury Securities - State and Local Government Series (SLGS)
  - Treasury Bills
  - Treasury Notes
  - Treasury Bonds
  - Treasury Strips
  - Treasury Inflation-Indexed Securities, commonly known as Treasury Inflation-Protected Securities (TIPS)
2. Portfolio Composition  
A maximum of 100% of the portfolio may be invested in United States Government Securities.
3. Maturity Limitations  
The maximum length to maturity of any direct investment in government securities is ten (10) years, except for the underlying securities of repurchase agreements (see the County Comptroller's Master Repurchase Agreement regarding limits on maturities).



**C. Federal Instrumentalities (United States Government-sponsored enterprises which are not guaranteed by the full faith and credit of the United States Government)**

**1. Purchase Authorization**

The Treasury Manager may invest in bonds, debentures or notes issued and guaranteed by the full faith and credit of United States Government-sponsored enterprises (Federal Instrumentalities) which are not guaranteed by the full faith and credit of the United States Government limited to the following:

Federal Farm Credit Bank (FFCB)

Federal Home Loan Bank or its district banks (FHLB)

Federal National Mortgage Association (Fannie Mae)

Federal Home Loan Mortgage Corporation (Freddie Mac)

**2. Portfolio Composition**

A maximum of 45% of the portfolio may be invested in Federal Instrumentalities.

**3. Limits on Individual Issuers**

A maximum of 15% of the portfolio may be invested in any one issuer.

**4. Maturity Limitations**

The maximum length to maturity for an investment in any Federal Instrumentality is ten (10) years.

**D. Non-Negotiable Interest Bearing Time Certificates of Deposit**

**1. Purchase Authorization**

The Treasury Manager may invest in non-negotiable interest bearing time certificates of deposit, bank money market deposits or savings accounts in banks organized under the laws of this state and in national banks organized under the laws of the United States and doing business and situated in this state, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes and provided that the bank is not listed with any recognized credit watch information service.

**2. Portfolio Composition**

A maximum of 30% of the portfolio may be invested in non-negotiable interest bearing time certificates of deposit or savings accounts.

**3. Limits on Individual Issuers**

A maximum of 5% of the portfolio may be deposited with any one issuer.

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

**E. Repurchase Agreements**

**1. Purchase Authorization**

a. The Treasury Manager may invest in repurchase agreements as described in Section VIII, E, and based on the requirements set forth by the County Comptroller's Master Repurchase Agreement. All firms with whom the County Comptroller enters into repurchase agreements will

- have in place an executed a Master Repurchase Agreement with the County Comptroller.
  - b. A third party custodian shall hold collateral for all repurchase agreements with a term longer than one (1) business day.
  - c. Securities authorized for collateral are negotiable direct obligations of the United States Government and Federal Instrumentalities with maturities under five (5) years and must have a mark-to-market value of 102 percent during the term of the repurchase agreement. Immaterial short-term deviations from the 102 percent requirement are permissible only upon the approval of the Treasury Manager.
2. **Portfolio Composition**  
A maximum of 20% of the portfolio may be invested in repurchase agreements with the exception of one (1) business day agreements and overnight sweep agreements.
  3. **Limits on Individual Sellers**  
A maximum of 5% of the portfolio may be invested with any one institution or dealer with the exception of one (1) business day agreements.
  4. **Limits on Maturities**  
The maximum length to maturity of any repurchase agreement is 30 days from the date of purchase.

#### F. Bankers' Acceptances

1. **Purchase Authorization**  
The Treasury Manager may invest in bankers' acceptances which are inventory based and issued by a domestic bank which has at the time of purchase, an unsecured, uninsured and unguaranteed obligation rating of at least "Prime-1" and "A" by Moody's and "A-1" and "A" by S&P and ranked in the top fifty (50) domestically chartered insured commercial banks that have consolidated assets of \$300 million or more as compiled and reported quarterly by the Federal Reserve Board in its Large Commercial Banks release. Bankers' acceptances are prohibited as a permitted investment of bond construction funds, debt service reserve funds and sinking funds.
2. **Portfolio Composition**  
A maximum of 15% of the portfolio may be directly invested in bankers' acceptances.
3. **Limits on Individual Issuers**  
A maximum of 5% of the portfolio may be invested with any one issuer.
4. **Maturity Limitations**  
The original maturity of the security must be 270 days or less.

#### G. Commercial Paper

1. **Purchase Authorization**  
The Treasury Manager may invest in commercial paper of any United States company which is rated at the time of purchase, "Prime-1" by Moody's and "A-1" by S&P (prime commercial paper). If backed by a letter of credit

(LOC), the long-term debt of the LOC provider must be rated at least "A" by at least two nationally recognized rating agencies. The LOC provider must be ranked in the top fifty (50) domestically chartered insured commercial banks that have consolidated assets of \$300 million or more as compiled and reported quarterly by the Federal Reserve Board in its Large Commercial Banks release. Commercial paper is prohibited as a permitted investment of bond construction funds, debt service reserve funds and sinking funds.

2. Portfolio Composition

A maximum of 15% of the portfolio may be directly invested in prime commercial paper.

3. Limits on Individual Issuers

A maximum of 2.5% of the portfolio may be invested with any one issuer.

4. Maturity Limitations

The maximum length to maturity for prime commercial paper shall be 270 days.

H. State and Local Government Taxable and Tax-Exempt Debt

1. Purchase Authorization

The Treasury Manager may invest in state and local government taxable and tax exempt debt, general obligation and revenue bonds, rated at least "MIG-2" by Moody's, and "SP-2" by S&P or short-term debt, but only in situations necessary to comply with arbitrage regulations.

2. Portfolio Composition

A maximum of 10% of the portfolio may be invested in taxable and tax-exempt debts.

3. Limits on Individual Issuers

A maximum of 3% of the portfolio may be invested with any one issuer.

4. Maturity Limitations

The maximum length to maturity for an investment in any state or local government debt security is three (3) years.

I. Constant Net Asset Value Money Market Mutual Funds (Treasuries and Treasury-backed Repurchase Agreements)

1. Investment Authorization

The Treasury Manager may invest in SEC qualified constant net asset value money market mutual funds rated "AAAm" or "AAAg" comprised of only Treasuries and Treasury-backed repurchase agreements and for arbitrage compliance only, investments described in Section VIII, H provided that said funds contain no derivatives.

2. Portfolio Composition

A maximum of 25% of the portfolio may be invested in constant net asset value mutual funds which authorize only Treasuries and Treasury-backed repurchase agreements and for arbitrage compliance only, investments described in Section VIII, H provided that said funds contain no derivatives.

3. Limits of Individual Issuers  
A maximum of 10% of the portfolio may be invested with any one fund.
4. Maturity Limitations  
The weighted average maturity of instruments in the fund shall be 60 days or less.
5. The combination of the SBA investment and all Money Market Mutual Funds shall not exceed a maximum of 50% of the total portfolio.

#### **XVIII. CONTINUING EDUCATION**

The County Comptroller and Comptroller staff responsible for making investment decisions must annually complete at least 8 hours of continuing education in subjects or courses of study related to investment practices and products.

#### **XIX. POLICY REVIEW AND AMENDMENT**

The County Comptroller shall review this policy annually and any recommended changes will be presented to the Board of County Commissioners for adoption.

## **GLOSSARY**

**ACCRUED INTEREST:** The interest owed to the seller of a coupon bearing security from the last coupon date up to the sale date.

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

**ASK:** The price at which securities are offered.

**BANKERS' ACCEPTANCE (BA):** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer, evidencing a loan created by the accepting bank.

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

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

**BOARD OF COUNTY COMMISSIONERS:** The principal legislative and governing body of Orange County, Florida as provided by Article VIII, Section 1 of the Florida Constitution, Section 125 of the Florida Statutes and the Orange County Charter.

**BROKER:** A broker brings buyers and sellers together for a commission.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate.

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

**COMMERCIAL PAPER (CP):** An unsecured promissory note issued by a corporation. Maturity may not exceed 270 days. Usually sold in discount form.

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

**COUNTY COMPTROLLER:** An independently elected County official established pursuant to the Constitution of the State of Florida who is the Chief Financial Officer for the County.

**COUPON:** (1) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (2) A certificate attached to a bond evidencing interest due on a payment date.

**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:** Delivery versus payment is delivery of securities with an exchange of money for the securities.

**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).

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

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

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

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits up to \$250,000 per depositor, per insured bank.

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

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

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

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

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

**FLORIDA LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND ALSO KNOWN AS FLORIDA PRIME (SBA):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Board of Administration for investment and reinvestment.

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

**INVESTMENT ADVISORY COMMITTEE:** A committee consisting of County Comptroller staff and other qualified individuals with financial or investment expertise. The committee was established by the County Comptroller to provide advice to the Comptroller on the Investment Policy, provide advice on investment strategies and monitor the performance and structure of the County's portfolio.

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

**MARKET PRICE:** In general business, the price agreed upon by buyers and sellers of a product or service, as determined by supply and demand.

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

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

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

**MONEY MARKET:** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

**OFFER:** The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

**PAR:** (1) 100% of the face amount of an issue. (2) The principal amount a holder will receive at the maturity of an issue.

**PORTFOLIO:** Collection of securities held by an investor.

**PREMIUM:** (1) The amount by which the market price of an issue exceeds par. (2) The amount in excess of par that an issuer must pay to call in its bonds. (3) In the money market, the rate higher than the norm that one bank must pay to attract CD depositors.

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

**PRINCIPAL:** (1) The dollar cost of an issue excluding accrued interest. (2) The one who takes ownership in a transaction, as opposed to brokering or acting as agent.

**PRUDENT PERSON STANDARD:** An investment standard in which 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.

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

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

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



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

**SECURITIES & EXCHANGE COMMISSION (SEC):** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SPREAD:** (1) The yield or price difference between the bid and offer on an issue. (2) The yield or price difference between different issues.

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

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

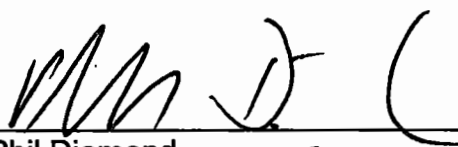
**TREASURY INFLATION-INDEXED SECURITIES:** Treasury Inflation-Indexed Securities, also known as Treasury Inflation-Protected Securities (TIPS), are U.S. Treasury debt securities that provide protection from inflation. Underlying principal and coupon payments are periodically adjusted based on the consumer price index to compensate for inflation.

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

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

**WHEN ISSUED MARKET:** A conditional transaction on a security that has been authorized but not issued. The transaction will settle when, and if, the security is issued.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. (1) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (2) **NET YIELD or YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Approved:   
Phil Diamond  
County Comptroller

Date: 1-3-2018