

Escambia County, Florida Investment Policy



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Clerk of Court & Comptroller
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Escambia County, Florida Investment Policy

I. PURPOSE

The purpose of this policy is to set forth the investment objectives and parameters for the management of public funds of Escambia County Board of County Commissioners, Florida (hereinafter "County"). These policies are designed to safeguard the County's funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

II. SCOPE

In accordance with Section 218.415, Florida Statutes, this investment policy applies to all cash and investments held or controlled by the County including the County's funds related to the issuance of debt. Any future revenues, which have statutory investment requirements conflicting with this Investment Policy and funds held or controlled by Federal or State agencies (e.g., Department of Revenue), are not subject to the provisions of this policy.

III. INVESTMENT OBJECTIVES

Safety of Principal

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

Maintenance of Liquidity

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

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. However, return is attempted through active management where the Investment Advisor utilizes a total return strategy (which includes both realized and unrealized gains and losses in the portfolio). This total return strategy seeks to increase the value of the portfolio through reinvestment of income and capital gains. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Despite this, an Investment Advisor may trade to recognize a loss from time to time to achieve a perceived relative value based on its potential to enhance the total return of the portfolio.

IV. DELEGATION OF AUTHORITY

As designated by the Board of County Commissioners the responsibility for providing oversight in regards to the management of the investment program resides with Escambia County's Clerk and Comptroller (Clerk). If the portfolio is split between a short term and long term core investment program, the Clerk may utilize the services of an Investment Advisor to manage the long term portion who must be registered under the Investment Advisers Act of 1940. The Clerk or designee will be responsible for the transferring of appropriate funds to affect investment transactions for the long-term core investment program. The Clerk's Finance Department will be responsible for the investment of operating funds, operating reserves funds, and bond proceeds.

V. 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 Board of County Commissioners in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. The "Prudent Person" rule states the following:

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment.

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

VI. ETHICS AND CONFLICTS OF INTEREST

Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Also, employees involved in the investment process shall disclose to the Investment Committee any material financial interests in financial institutions that conduct business with the County, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the County's investment program.

VII. INTERNAL CONTROLS AND INVESTMENT PROCEDURES

The Clerk or designee shall establish a system of internal controls and operational procedures that are in writing and made a part of the County's finances operational procedures. The internal controls should be designed to prevent losses of funds, which might arise from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees. The written procedures should include reference to safekeeping, repurchase agreements, separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts, collateral/depository agreements, and "delivery-vs-payment" procedures. No person may engage in an investment transaction except as authorized under the terms of this policy.

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

VIII. CONTINUING EDUCATION

The Clerk or designee shall annually complete 8 hours of continuing education in subjects or course of study related to investment practices and products.

IX. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

The Clerk shall only purchase securities from Qualified Financial Institutions and investment institutions, which are designated as Primary Dealers by the Federal Reserve Bank of New York. The Clerk or designee shall only enter into repurchase agreements with financial institutions that are Qualified Institutions and Primary Dealers as designated by the Federal Reserve Bank of New York. The Clerk or designee shall maintain a list of financial institutions and broker/dealers that are approved for investment purposes and only firms meeting the following requirements will be eligible to serve as Qualified Institutions:

- 1) Regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
- 2) Capital of no less than \$10,000,000;
- 3) Registered as a dealer under the Securities Exchange Act of 1934;
- 4) Member of the Financial Industry Regulatory Authority, Inc. (FINRA)
- 5) Registered to sell securities in Florida;
- 6) The firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.
- 7) Public Depositories qualified by the Treasurer of the State of Florida, in accordance with Chapter 280, Florida Statutes.

All brokers, dealers and other financial institutions deemed Qualified Institutions shall be provided with current copies of the County's Investment Policy. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the County transacts business. The County's Investment Advisor shall utilize and maintain its own list of approved primary and non-primary dealers.

X. MATURITY AND LIQUIDITY REQUIREMENTS

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements.

Operating Funds

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of current operating funds shall have maturities of no longer than twelve (12) months.

Core Funds

Investments of reserves, project funds, debt proceeds and other non-operating funds ("core funds") shall have a term appropriate to the need for funds and in accordance with debt covenants, but in no event shall exceed five and a half (5.50) years and the average duration of the funds as a whole may not exceed three (3) years.

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

XI. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

After the Clerk has determined the approximate maturity date based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) qualified banks and/or approved broker/dealers must be contacted and asked to provide bids/offers on securities in questions. Bids will be held in confidence until the bid deemed to best meet the investment objectives is determined and selected.

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

- A. TradeWeb
- B. Bloomberg Information Systems
- C. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing
- D. Daily market pricing provided by the County's custodian or their correspondent institutions

Examples of when this method may be used include:

- A. When time constraints due to unusual circumstances preclude the use of the competitive bidding process

- B. When no active market exists for the issue being traded due to the age or depth of the issue
- C. When a security is unique to a single dealer, for example, a private placement
- D. When the transaction involves new issues or issues in the “when issued” market

Overnight sweep investment instruments will not be bid, but may be placed with the County’s depository bank relating to the demand account for which the investment instrument was purchased.

When all other factors are equal, qualified public depositories having a physical presence within Escambia County will be given preference in order to enable the banks in Escambia County the opportunity to enhance the economics of the local area.

XII. AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION

Investments should be made subject to the cash flow needs. Such cash flows are subject to revisions as market conditions and the County’s needs change. County Departments are responsible for updating cash flow projections and expenditure projections over \$100,000 and for providing this information to the Clerk or designee on a quarterly basis or as needed. However, when the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, the Clerk or designee may sell the investment at the then-prevailing market price and place the proceeds into the proper account at the County’s custodian.

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the County. Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the Clerk. The Clerk shall have the option to further restrict investment percentages from time to time based on market conditions, risk and diversification investment strategies.

Diversification limits outlined below may be temporarily exceeded at the Clerk’s discretion when general economic conditions warrant such departure. Exceeding percentage limits due to changes in portfolio balance will not require liquidation of any asset, but will restrict further investing. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment at the time of purchase. Investments not listed in this policy are prohibited.

Permitted Investments

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement ¹	Maximum Maturity
U.S. Treasury	100%	100%	N/A	5.50 Years (5.50 Years avg. life ⁴ for GNMA)
GNMA		40%		
Other U.S. Government Guaranteed (e.g. AID, GTC)		10%		
Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB*	75%	40% ³	N/A	5.50 Years
Federal Agency/GSE other than those above		10%		
Corporates	50% ²	5%	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3 or equivalent)	5.50 Years
Municipals	25%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)	5.50 Years
Agency Mortgage-Backed Securities (MSB)	25%	25% ³	N/A	5.50 Years Avg Life ⁴
Asset-Backed Securities (ABS)	25%	5%	Highest ST or Three Highest LT Rating (A-1+/P-1, A-/A3, or equivalent)	5.50 Years Avg Life ⁴
Non-Negotiable Collateralized Bank Deposits or Savings Accounts	50%	15%	None, if fully collateralized.	1 Year
Commercial Paper (CP)	25% ²	5%	Highest ST Rating Category (A-1/P-1, or equivalent)	270 Days
Bankers' Acceptances (BAs)	10% ²	5%	Highest ST Rating Category (A-1/P-1, or equivalent)	180 Days
Repurchase Agreements (Repo or RP)	20%	10%	Counterparty (or if the counterparty is not rated by an NRSRO, then the counterparty's parent) must be rated in the Highest ST Rating Category (A-1/P-1, or equivalent)	1 Year
Money Market Funds (MMFs)	50%	25%	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A
Intergovernmental Pools (LGIPs)	75%	50%	Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP, (AAAm/AAAf, S1, or equivalent)	N/A

Notes:

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

² Maximum allocation to all corporate and bank credit instruments is 50% combined.

³ Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 25%.

⁴ The maturity limit for MBS and ABS is based on the expected average life at time of settlement, measured using Bloomberg or other industry standard methods.

* Federal National Mortgage Association (FNMA); Federal Home Loan Mortgage Corporation (FHLMC); Federal Home Loan Bank or its District banks (FHLB); Federal Farm Credit Bank (FFCB).

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

Securities must be held in the County's custodial account or in a separate account in the name of the County.

- d. Acceptable underlying securities include only securities that are direct obligations of, or that are fully guaranteed by, the United States or any agency of the United States, or U.S. Agency-backed mortgage related securities.
 - e. Underlying securities must have an aggregate current market value of at least 102% (or 100% if the counterparty is a Federal Reserve Bank) of the purchase price plus current accrued price differential at the close of each business day.
 - f. Final term of the agreement must be 1 year or less.
- 11) **Money Market Funds** - Shares in open-end and no-load money market mutual funds, provided such funds are registered under the Investment Company Act of 1940 and operate in accordance with Rule 2a-7. A thorough investigation of any money market fund is required prior to investing, and on an annual basis. A current prospectus must be obtained.
- 12) **Local Government Investment Pools** – State, local government or privately-sponsored investment pools that are authorized pursuant to state law, including the Florida Local Government Surplus Trust Fund (“Florida Prime”). A thorough investigation of any intergovernmental investment pool is required prior to investing, and on an annual basis. A current prospectus must be obtained.

General Investment and Portfolio Limits

1. General investment limitations:
 - a. Investments must be denominated in U.S. dollars and issued for legal sale in U.S. markets.
 - b. Minimum ratings are based on the highest rating by any one Nationally Recognized Statistical Ratings Organization (“NRSRO”), unless otherwise specified.
 - c. All limits and rating requirements apply at time of purchase.
 - d. Should a security fall below the minimum credit rating requirement for purchase, the Investment Advisor will notify the Clerk.
 - e. The maximum maturity of any investment is 5.50 years. Maturity and average life are measured from settlement date. The final maturity date can be based on any mandatory call, put, pre-refunding date, or other mandatory redemption date.
2. General portfolio limitations:
 - a. The maximum effective duration of the aggregate portfolio is 3 years.
 - b. Maximum exposure to issuers in any non-U.S. country cannot exceed 10 percent per country.
3. Investment in the following are permitted, provided they meet all other policy requirements:
 - a. Callable, step-up callable, called, pre-refunded, putable and extendable securities, as long as the effective final maturity meets the maturity limits for the sector
 - b. Variable-rate and floating-rate securities
 - c. Subordinated, secured and covered debt, if it meets the ratings requirements for the sector
 - d. Zero coupon issues and strips, excluding agency mortgage-backed Interest-only structures (I/Os)
 - e. Treasury TIPS

4. The following are **NOT PERMITTED** investments, unless specifically authorized by statute and with prior approval of the governing body:
 - a. Trading for speculation
 - b. Derivatives (other than callables and traditional floating or variable-rate instruments)
 - c. Mortgage-backed interest-only structures (I/Os)
 - d. Inverse or leveraged floating-rate and variable-rate instruments
 - e. Currency, equity, index and event-linked notes (e.g. range notes), or other structures that could return less than par at maturity
 - f. Private placements and direct loans, except as may be legally permitted by Rule 144A or commercial paper issued under a 4(2) exemption from registration
 - g. Convertible, high yield, and non-U.S. dollar denominated debt
 - h. Short sales
 - i. Use of leverage
 - j. Futures and options
 - k. Mutual funds, other than fixed-income mutual funds and ETFs, and money market funds
 - l. Equities, commodities, currencies and hard assets

XIII. PERFORMANCE MEASUREMENTS

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

- A. The short-term investment portfolio shall be evaluated in comparison with the weighted average return (net book value rate of return) of the Standard & Poor's Local Government Investment Pool All 30 Day rate (LGIP30D). The Standard & Poor's LGIP30D represents Government Investment Pools that maintain a stable net asset value of \$1 per share with an average maturity of 30 days and is rated in Standard & Poor's two highest money market fund rating categories: "AAAm" and "AAm."
- B. The long-term investment portfolio shall be designed with the annual objective of achieving a comparable return to the Bank of America Merrill Lynch 1-5 Year Treasury Index or an appropriate index. The appropriate index will have a duration and asset mix that approximates the portfolio and will be utilized as a benchmark to be compared to the portfolio's total rate of return.

XIV. REPORTING

- A. Monthly, the Clerk shall prepare a list of the investments held in the portfolio. The distribution of this monthly report shall be to the County Commissioners, County Administrator, Budget Director, and any other interested parties. The specific information in the report will include, but not be limited to, the following:
 - A. Name of security
 - B. Market value of security
 - C. Actual portfolio diversification percentages
 - D. Actual dealer or financial institution participation percentages

Annually, the certified public accountants conducting the audit of the County pursuant to Florida Statute 11.45 shall report, as part of the audit, whether or not the County has complied with Florida Statute 218.415.

XV. THIRD-PARTY CUSTODIAL AGREEMENTS

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

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

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

XVI. RESERVATION OF AUTHORITY

The authority to issue and/or revise this policy is reserved for the Board of County Commissioners.

BOARD OF COUNTY COMMISSIONERS
ESCAMBIA COUNTY, FLORIDA
As adopted by the Board on January 21, 2010;
and Amended May 3, 2018