

Hernando County Board of County Commissioners

Investment Policy



Revised May 12, 2015

I. SCOPE

This investment policy applies to all funds held by or for the benefit of Hernando County Board of County Commissioners, herein after referred to as the County.

The policy was adopted in accordance with Florida Statutes 218.415 (Attachment A). Bond proceeds may be further limited or expanded by their respective bond resolutions or covenants and shall not be considered to be in conflict with the Investment Policy.

II. INVESTMENT OBJECTIVES

The following investment objectives will be applied in the management of the County's funds. By using an active portfolio management philosophy, portfolio yield will be enhanced without an appreciable increase in risk.

Safety – The primary objective of the County's investment activities is the protection of investment capital. 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. From time to time, securities may be traded for other similar securities to improve yield, maturity or credit risk. For these transactions, a loss may be incurred for accounting purposes to achieve optimal investment return, provided any of the following occurs with respect to the replacement security:

- A. The yield has been increased, or
- B. The maturity has been reduced or lengthened, or
- C. The quality of the investment has been improved.

Liquidity – The County's investment strategy will provide sufficient liquidity such that cash flow requirements are met through the utilization of marketable securities with structured maturities.

Yield – In investing public funds, the County will strive to maximize the return on the portfolio but will minimize investment risk. 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.

III. INVESTMENT AUTHORITY

Responsibility for the administration of the investment program is vested in the Clerk of Circuit Court and Comptroller (Clerk), as provided in Florida Statute 28.33 (Attachment B). The Clerk shall exercise this authority and regulate the administration of the investment program through the Clerk's Office, including the utilization of an Investment Administrator, and other internal positions as the Clerk deems appropriate. The Clerk may also designate the responsibility of the investment program to an Investment Advisor. The Investment Advisor must be registered under Investment Advisers Act of 1940. If at any time the Investment Administrator is unavailable, a person from the list of Internal Controls (Section XV) shall be designated to execute the investments as necessary. No person may engage in an investment transaction except as stated in the Internal Controls section of the policy.

The Clerk is authorized to invest the County's funds as defined and will have such authority as is necessary to conduct an investment program, including the authority to appoint an Investment Advisor to aid in investment decision making, establish safekeeping accounts or other arrangements for the custody of securities, and to execute such documents as may be necessary within the boundaries of the stated policy.

IV. PRUDENCE AND ETHICAL STATEMENTS

The "Prudent Person" standard shall be used in the management of the overall investment portfolio. 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.

The Investment Administrator, authorized persons in accordance to Internal Controls (Section XV), or Investment Advisor performing the investment functions, acting as a "Prudent Person" in accordance with these written policies and procedures, exercising due diligence and investing in investments authorized by law shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to mitigate adverse developments.

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.

V. INVESTMENT PERFORMANCE MEASUREMENT AND REPORTING

A portfolio report shall be provided by the Investment Administrator, on a quarterly basis to the Board of County Commissioners, Clerk of Circuit Court and Comptroller, Financial Services Director, and appropriate management staff. This report shall include a breakdown of the portfolio's investments as well as overall performance.

Performance measurements shall include, but are not limited to:

- A. Investment performance of funds designated as short-term funds and other funds that must maintain a high degree of liquidity will be compared to the return of the S&P Rated GIP Index Government 30 -Day Yield. Investments of current operating funds should have maturities of no longer than twenty-four (24) months.
- B. The 12-month moving average of the 1-year U.S. Treasury Bill, or the 1-year Treasury Constant Maturity (CMT) index; or, the moving average of the Treasury Constant Maturity (CMT) index which most closely corresponds with the portfolio average weighted maturity.
- C. 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 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 portfolios' total rate of return.

For portfolios with a duration target of approximately 1.5 year to 2 years, the benchmark may include the Bank of America Merrill Lynch 1-3 Year U.S. Treasury Note Index, the Bank of America Merrill Lynch 1-3 Year U.S. Treasury/Agency Index or the 1-3 Year AAA-AA Corporate and Government Index.

For portfolios with a target duration of 2 years to 3 years, the benchmark may include the Bank of America Merrill Lynch 1-5 Year U.S. Treasury Note Index, the Bank of America Merrill Lynch 1-5 Year U.S. Treasury/Agency Index or the 1-5 Year AAA-AA Corporate and Government Index.

The Clerk of Circuit Court and Comptroller shall be notified immediately upon deviations from the currently approved investment policies.

VI. LISTING OF AUTHORIZED INVESTMENTS

As Authorized by County Ordinance (Attachment C), the Clerk, acting through the Investment Administrator, or other designee of the Clerk's Office, shall purchase or sell investment instruments at prevailing market rates. Authorized instruments are as follows:

Authorized Investment- Sector Type	Maximum Allocation	Individual Issuer Limit	Maximum Maturity
Florida PRIME Fund(1)	50%	N/A	N/A
Florida Local Government Investment Trust (FLGIT, or Florida Trust)(1)	50%	N/A	N/A
United States Government Securities	80%	N/A	7 Years
United States Government Agencies	25%	25%	7 Years
Supranationals (where U.S. is a shareholder and voting member)	25%	10%	5 Years
Federal Instrumentalities (United States Government Sponsored Enterprises "GSE")(2)	80%	40%	7 Years
Mortgage Backed Securities "MBS"	20%	15%	7 Years
Interest Bearing Time Deposit or Savings Accounts	40%	N/A	1 Year for CD
Repurchase Agreements	10%	5%	90 Days
Commercial Paper	25%(3)	10%	270 Days
Corporate Bonds	25%(3)	5%	5 Years
Asset-Backed Securities (ABS)	25%(3)	5%	5 Years
Bankers' Acceptances	10%	10%	270 Days Avg. Maturity
State and/or Local Government Taxable and/or Tax-Exempt Debt	20%	5%	5 Years
Registered Investment Companies (Money Market Funds)	50%	25%	N/A
Other Intergovernmental Investment Pools(4)	25%	N/A	N/A

(1) Maximum combined allocation to FL PRIME and FLGIT is 50% of the portfolio.

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

(3) Maximum allocation to all corporate and bank credit instruments is 35% combined.

(4) Does not include allocation to Florida Local Government Investment Trust or FL PRIME.

- A. The Local Government Surplus Funds Trust Fund (the state investment pool) administered by the State Board of Administration, also known as S.B.A. or Florida Prime.
- B. The Florida Local Government Investment Trust, also known as the Florida Trust, administered by the Florida Association of Court Clerks and Comptrollers and the Florida Association of Counties.
- C. Negotiable direct obligations of, or obligations of the principal and interest of which are unconditionally guaranteed by the United States Government. Such securities will include, but not limited to, the following:
 - 1. Treasury Bills
 - 2. Treasury Notes
 - 3. Treasury Bonds
 - 4. Treasury Strips
- D. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by the United States agencies, provided such obligations are backed by the full faith and credit of the United States Government. Such securities will include, but not limited to, the following:
 - 1. Farmers Home Administration
 - 2. Federal Financing Bank
 - 3. Federal Housing Administration Debentures
 - 4. Government National Mortgage Association (GNMA or Ginnie-Mae)
- E. U.S. dollar denominated debt obligations of Supranationals which are multilateral organizations of governments where U.S. is a shareholder and voting member that have a long term debt rating of "AAA" category, or a short term debt rating of A-1 or higher, by any two NRSROs at the time of purchase. Such supranational securities will include, but not be limited to:
 - International Bank for Reconstruction and Development
 - International Finance Corporation
 - Inter-American Development Bank
- F. Bonds, debentures, notes, or other evidence of indebtedness which may be subject to call, including mortgage backed securities, issued or guaranteed as to principal and

interest by United States Government Sponsored Enterprises (Federal Instrumentalities), which are not full faith and credit agencies, 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 (FNMA or Fannie-Mae)
 4. Federal Home Loan Mortgage Corporation (FHLMC or Freddie-Mac)
 5. Tennessee Valley Authority (TVA)
- G. Non-negotiable, interest-bearing time certificates of deposit, money market accounts or savings accounts in banks/savings and loan associations organized under the laws of the United States, provided that any such deposits are secured by the Florida Security Deposits Act, Chapter 280, Florida Statutes.
- H. Repurchase Agreements (for purchase and subsequent sale) for any of the investments authorized above in items C and E.
- I. Securities and Exchange Commission (SEC) registered Money Market Funds with the highest credit rating by either major Nationally Recognized Statistical Rating Organization (NRSRO), consisting of only those investments in items C, E, and G above.
- J. Prime Commercial Paper of any United States Company which is rated, at the time of purchase, as prime by two of three recognized rating agencies, A-1 or higher by Standard & Poor's, P-1 by Moody's Investors Service, or F-1 or higher by Fitch Investors Service. 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) United States Banks in terms of total assets by the American Banker's report.
- K. Domestic Bankers' Acceptances eligible for discounting with the Federal Reserve Bank which have an unsecured, uninsured, and unguaranteed obligation rating of at least A-1 and A by Standard & Poor's and Prime-1 and A by Moody's Investors Service.
- L. Municipal Debt General Obligation (GO) Securities issued by a municipality within the United States, provided that such instrument is rated "A or equivalent" or better by at least one Nationally Recognized Statistical Rating Organization (NRSRO) at time of purchase.
- M. Corporate Debt Securities issued by any corporation operating within the United States, provided that such instrument is rated "A or equivalent" or better by at least

two Nationally Recognized Statistical Rating Organizations (NRSRO's) at time of purchase. Investment in convertible securities is prohibited.

- N. 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 that have a rating of "AAA" by any two NRSROs at the time of purchase.
- O. Other Intergovernmental investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes that are rated "AAAm" by Standard & Poor's or the equivalent by another NRSRO and provided that said funds contain no derivatives.

VII. MATURITY AND LIQUIDITY REQUIREMENTS

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of current operating funds shall have maturities of no longer than one (1) year. Investment of bond reserves, construction funds and other non-operating funds shall have a term appropriate to the need for funds, and in accordance with debt covenants, but shall not exceed seven (7) years, unless specifically required by the terms of the bond documents.

Investments do not necessarily have to be made for the same length of time that the funds are available. Generally, the basic criteria for consideration of investments are as follows:

- A. Keep maturities short in a period of constantly rising interest rates based on Treasury bill auctions or the daily Federal Funds rate.
- B. Keep maturities short in a period of an inverted Treasury yield curve (short-term rates higher than long-term rates).
- C. 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.
- D. Maturities should be lengthened when interest rates are expected to fall based on economic reports taken as a whole.
- E. A liquidity base of at least approximately two (2) months of anticipated disbursements, excluding bond construction payments or other bond payments made from escrow or trust accounts, will be kept in relatively short-term investments. These would include the State Investment Pool (SBA), Certificates of Deposits, U.S. Treasury Bills, Federal Agency Discount Notes, short-dated Commercial Paper, Repurchase Agreements, and Money Market Funds.

- F. Although many securities are acceptable for investment using the authorized list, some are not very desirable from a liquidity standpoint. Accordingly, only those securities with an active secondary market may be purchased from the list.

VIII. PORTFOLIO COMPOSITION

The following are the guidelines for investments and limits on security issues, issuers and maturities as established by the County. The Clerk of Circuit Court and Comptroller, or appointed designee, shall have the option to further restrict or increase investment percentages from time to time based on market conditions. Purchase of investments based on bond covenant requirements shall not be included in the portfolio composition calculation.

If the investment program is managed internally by the Clerk, no more than 25% of the entire portfolio may be placed with any one financial institution or securities dealer. The following maximum limitations are guidelines established for diversification by instrument:

- A. The local Government Surplus Trust Fund (SBA), also known as Florida Prime and the Florida Local Government Investment Trust (FLGIT), also known as the Florida Trust:
 - 1. A maximum combined total of 50% of the portfolio may be invested in theses Trusts. (Bond proceeds may be temporarily deposited in the SBA and Florida Trust until alternative investments have been purchased and are not a part of this calculation.)
- B. United States Government Securities:
 - 1. A maximum of 80% of the portfolio may be invested in United States Government securities, which are defined as negotiable direct obligations, or obligations of which the principal and interest are unconditionally guaranteed by the U.S. Government (Treasury Bills, Notes, Bonds and Strips).
 - 2. The maximum length to maturity of any direct investment in these securities is seven (7) years.
- C. United States Federal Agencies:
 - 1. A maximum of 25% of the portfolio may be invested in the United States Federal Agency securities, which are backed by the full faith and credit of the U.S. Government, including but not limited to:
 - a. Farmers Home Administration
 - b. Federal Financing Bank

- c. Federal Housing Administration Debentures
 - d. Government National Mortgage Association (GNMA), including mortgage backed securities.
 - 2. The maximum length to maturity of any direct investment in these securities is seven (7) years.
- D. Federal Instrumentalities:
- 1. A maximum of 80% of the portfolio may be invested in these securities, which are also called Government Sponsored Enterprises (GSE) but are not backed by the full faith and credit of the U.S. Government. A maximum of 40% of available funds may be invested in any "GSE" A maximum of 20% of the portfolio may be invested in mortgage backed securities. The combined total of available funds invested in Federal Instrumentalities and Mortgage Backed Securities cannot be more than 80%. Government Sponsored Enterprise securities are limited to:
 - a. Federal Farm Credit Bank (FFCB)
 - b. Federal Home Loan Bank or its district banks (FHLB)
 - c. Federal National Mortgage Association (FNMA)
 - d. Federal Home Loan Mortgage Corporation (FHLMC)
 - e. Tennessee Valley Authority (TVA)
 - 2. The maximum length to maturity of any direct investment in these securities is seven (7) years.
- E. Supranationals:
- U.S. dollar denominated debt obligations of Supranationals which are multilateral organizations of governments where U.S. is a shareholder and voting member that have a long term debt rating of "AAA" category, or a short term debt rating of A-1 or higher, by any two NRSROs at the time of purchase.
- 1. A maximum of 25% of the portfolio may be invested in this type of investment. A maximum of 10% of available funds may be invested in any one supranational organization.
 - 2. The maximum length to maturity for an investment in any supranational organization security is five (5) years from the date of purchase.

- F. Nonnegotiable Interest-bearing Time Certificate of Deposit or Savings Account:
1. A maximum of 40% of the portfolio may be invested in this type of investment.
 2. The maximum maturity on any certificate shall be no greater than one (1) year from the time of purchase.
- G. Repurchase Agreements:
1. A maximum of 10% of the portfolio may be invested in Repurchase Agreements, with the exception of one (1) business day agreements and overnight sweep agreements.
 2. The maximum term of a repurchase agreement will be ninety (90) days.
 3. A maximum of 50% of the total Repurchase Agreements portfolio may be invested with any one issuer, with the exception of one (1) business day agreements and overnight sweep agreements.
- H. Money Market Funds:
1. A maximum of 50% of the portfolio may be invested in Money Market Funds with the highest credit rating by either major Nationally Recognized Statistical Rating Organization (NRSRO) and no more than 25% in any one fund. (Bond proceeds may be temporarily deposited in money market funds until alternative investments have been purchased and are not a part of this calculation.)
 2. The weighted average length to maturity of instruments in the funds shall be sixty (60) days or less.
- I. Commercial paper:
1. A maximum of 25% of the portfolio may be invested in prime commercial paper. A maximum of 10% of available funds may be invested in any one ABS issuer. A maximum allocation to commercial paper, corporate bonds and asset backed securities shall not exceed 35% of available funds.
 2. The average length to maturity shall be 270 days or less.
- J. Domestic Bankers' Acceptances:
1. A maximum of 10% of the portfolio may be invested in U.S. (domestic) Bankers' Acceptances.
 2. The average length to maturity shall be 270 days or less.

K. Municipal Bonds

1. A maximum of 20% of the portfolio may be invested in municipal (general obligation) securities, with a minimum credit rating of "A" by at least one Nationally Recognized Statistical Rating Organization (NRSRO).
 - a. A maximum of 5% of the portfolio may be invested in any one issuer.
 - b. A maximum of 10% of the portfolio may be invested in municipal securities with a credit rating of "A" to "A+" by at least one Nationally Recognized Statistical Rating Organization (NRSRO).
 - c. A maximum of 15% of the portfolio may be invested in municipal securities with a credit rating of "AA-" to "AA+" by at least one Nationally Recognized Statistical Rating Organization (NRSRO).
2. The maximum maturity on any municipal security shall be no greater than five (5) years.

L. Corporate Bonds

1. A maximum of 25% of the portfolio may be invested in corporate bonds, with a minimum credit rating of A by at least two Nationally Recognized Statistical Rating Organizations (NRSROs). A maximum allocation to commercial paper, corporate bonds and asset backed securities shall not exceed 35% of available funds.
 - a. A maximum of 5% of the portfolio may be invested in any one issuer.
 - b. A maximum of 10% of the portfolio may be invested in any one sector (Industrial, Financial, or Other).
 - c. A maximum of 10% of the portfolio may be invested in corporate securities with a credit rating ranging from "A" to "A+" by at least two Nationally Recognized Statistical Rating Organizations (NRSROs).
 - d. A maximum of 20% of the portfolio may be invested in corporate securities with a credit rating ranging from "AA-" to "AA+" by at least two Nationally Recognized Statistical Rating Organizations (NRSROs).
2. The maximum maturity of any corporate security shall be no greater than five (5) years.

M. Asset Backed Securities

1. A maximum of 25% of available funds may be invested in ABS securities. A maximum of 5% of available funds may be invested in any one ABS issuer. A maximum allocation to commercial paper, corporate bonds and asset backed securities shall not exceed 35% of available funds.
2. The maximum maturity of any corporate security shall be no greater than five (5) years.

N. Intergovernmental Pool

1. A maximum of 20% of the portfolio may be invested in corporate bonds, with a minimum credit rating of AAAm by Standard & Poor's or the equivalent by another NRSRO.

IX. RISK AND DIVERSIFICATION

Assets held shall be diversified to control the risk of loss 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 Clerk of Circuit Court and Comptroller, Financial Services Director and Investment Administrator.

X. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

The County shall only purchase securities from financial institutions which are located within the State of Florida and are qualified as public depositories by the Treasurer of the State of Florida or from primary securities brokers/dealers designated by the Federal Reserve Bank of New York. Documented lists of the authorized financial institutions and dealers/brokers will be developed and maintained by the Investment Administrator and approved by the Clerk of Circuit Court and Comptroller and Financial Services Director.

In the event the services of an investment advisor has been acquired and has their own authorized list(s) of financial institutions and dealers/brokers, those lists will be provided on an annual basis.

If at any time the Clerk of Circuit Court and Comptroller is appropriately notified of any threat to the integrity of the investment portfolio, proper security measures may be suggested and implemented, and the Clerk shall have the option to further restrict investment in selected instruments to conform to then-present market conditions.

Repurchase Agreements will be conducted through, and negotiated only with Qualified Public Depository finance institutions and primary securities brokers/dealers. A written

Master Repurchase Agreement will be negotiated with any institution with which the County, through the Clerk, enters into a specific repurchase agreement.

XI. THIRD PARTY CUSTODIAL AGREEMENT

The County, through the Clerk, will execute a Third-Party Custodial Safekeeping Agreement with a commercial bank's trust department which is separately chartered by the United States Government or the State of Florida.

All securities purchased and/or collateral obtained by the County shall be properly designated as an asset of the County and held in safekeeping by the Trust Department and no withdrawal of such securities, in whole or in part, shall be made from safekeeping except by an authorized Clerk's Office agent, as designated in the Internal Control section of this policy.

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

All securities will be handled by "Delivery vs. Payment" method. Simultaneous to the release of County funds to purchase a security, there will be a delivery of the securities purchased. Accordingly, for any sale of securities, there will be a simultaneous transfer of money to the County before the release of the securities. This policy ensures that the County neither transfers money or securities before receiving the other portion of the transaction. Rather, both transfers will happen simultaneously, through the custodial bank authorized to conduct transactions for the County.

Certificates of deposit and other time deposits do not need to be placed with a third-party custodian, since they are collateralized through Chapter 280 of the Florida Statutes.

The Local Government Surplus Funds Trust Fund (SBA) also known as Florida Prime and the Florida Local Government Investment Trust (FLGIT) also known as Florida Trust are exempt from the collateralization and third-party agreements.

XII. MASTER REPURCHASE AGREEMENT

The County 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.

XIII. COLLATERAL REQUIREMENTS

The County is required by the provisions in Florida Statutes Chapter 280 (Attachment D) to place its deposits only in a “qualified public depository”, as that term is defined in the Florida Statutes. Any deposit placed in a qualified public depository is deemed to be adequately collateralized by Florida Statutes. Subsequent failure by a qualified public depository to timely return public deposits to the County will be governed by Chapter 280, as amended. In the event of a repeal of Chapter 280, alternative collateralization policies shall be adopted. The option to request additional collateralization on any deposit(s) to further protect the safety of the investments is specifically retained by the County acting through the Clerk.

With repurchase agreements, this policy herewith requires the obtaining of collateral for any repurchase agreement not covered under Chapter 280. Collateral placed for any repurchase agreement will be governed by a Master Repurchase Agreement executed between the Clerk on behalf of the County and each of the approved financial institutions and/or securities dealers. The terms for collateral will be based on economic and financial conditions existing at the time of execution and credit risk of the particular financial institution or securities dealer which enter into the repurchase agreement pursuant to the provisions hereof.

XIV. BID REQUIREMENTS

Although in most situations the competitive bid process shall be utilized, there is no obligation to secure competitive bids from all financial institutions and securities dealers on the approved list. Rather, a decision will be made by the Investment Administrator and Financial Services Director as to the institutions that have been the most competitive over the preceding investment bids or by a fair rotation, without exceeding maximum issuer limitations.

A. After the Investment Administrator or other designee (XV. O. 6.), has determined the approximate maturity date based on the cash flow needs and market conditions and have analyzed and selected one or more optimal investments, a minimum of three (3) approved financial institutions and/or securities dealers will be contacted and asked to provide a bid on the securities in question. However, if obtaining bids/offers are not feasible and appropriate, securities may be purchased utilizing the comparison to current market price method on an exception basis. Acceptable current market price providers include, but are not limited to:

1. Telerate Information System¹
2. Bloomberg Information Systems
3. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing

4. Daily market pricing provided by the County's custodian or their correspondent institutions

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 Advisor and/or the Financial Services Director, competitive bidding would inhibit the selection process.

Examples of when the County may use this method include:

1. When time constraints due to unusual circumstances preclude the use of the competitive bidding 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

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

1. Bids will be held in confidence until the highest bid is determined and awarded.
 2. Documentation will be retained for all bids, with the winning bid clearly identified.
 3. If for any reason the highest yielding bid was not selected, the reasons leading to that decision will be clearly indicated on the bid forms.
 4. If the maturing investment is a certificate of deposit, the present holder of the funds will be one of the contacts made, subject to the portfolio diversification requirements in this policy.
- B. This policy need not apply in relation to swap proposals offered by a specific approved financial institution or securities dealer as such "shopping" of swap proposals can have an adverse effect on broker motivation to seek swaps.
- C. If the investment program is managed internally by the Clerk, in certain circumstances where a financial institution or securities dealer informs the County of a potential purchase or sale that must be completed within minutes of notification, the competitive bidding policy will be waived.

The Clerk of Circuit Court and Comptroller or Financial Services Director will have final approval on these particular transactions before they have been completed.

- D. Notwithstanding the above, in order to afford financial institutions (banks and/or savings and loan associations) within Hernando County opportunities to enhance the economy of the local area, certificates of deposit may be purchased from an institution as described in Section VI.F., provided that the following additional conditions have been satisfied:
1. The institution, or branch office, is located within the boundaries of Hernando County, Florida.
 2. The institution has the highest and best bid of all bidding institutions.
 3. The institution awarded the bid is subject to the portfolio limitation requirements and may not exceed said limitations.
 4. The financial institution must be a Qualified Public Depository as determined by the State of Florida.

XV. INTERNAL CONTROLS

The Clerk shall exercise and monitor a set of internal controls to be conducted through the Investment Administrator, which said controls are designed to protect the County's funds and ensure proper accounting and reporting of the securities transactions. Such internal controls shall consist of the following:

- A. All securities purchased or sold will be transferred only under the "Delivery Versus Payment" method to ensure that funds or securities are not released until all criteria relating to the specific transaction are met.
- B. The Clerk is authorized to accept, on behalf of and in the name of Hernando County, bank trust receipts and/or confirmations as evidence of actual delivery of the obligation or securities in return for investment of funds.
 1. Trust receipts or confirmation shall fully describe the various obligations or securities held. The receipt or confirmation shall state that the investment is held in the name of Hernando County.
- C. Written documentation and/or confirmation of telephone transactions and wire transfers will be maintained.
- D. There will be adequate separation of duties with clear delegation of authority among investment personnel.
- E. Custodial safekeeping shall be properly utilized.

- F. Investment review and performance reporting, interim and annual shall be done by the Investment Administrator and reviewed by the Clerk of Circuit Court and Comptroller.
- G. The Investment Administrator will promptly notify the Clerk of Circuit Court and Comptroller and Financial Services Director of any threat to the safety of the Portfolio and proper security measures will be suggested and implemented to conform to market conditions.
- H. There will be an avoidance of bearer-form securities.
- I. There will be no physical delivery of securities.
- J. There will be prohibition of collusion.
- K. A wire transfer agreement with the custodial bank outlining the various controls and security provisions for making and receiving wire transfers shall be executed.
- L. Monthly Custodial Safekeeping account statements shall be maintained.
- M. Transaction confirmations will be received from the financial institution or securities dealer awarded the investment and maintained as investment documentation.
- N. Investment activity will be performed by the Investment Administrator or Investment Advisor, under the direct control of the Financial Services Director and the Clerk of Circuit Court and Comptroller. In the absence of the Financial Services Director and Clerk of Circuit Court and Comptroller, investment activity must be reviewed by the Assistant Financial Services Director and later approved by the Financial Services Director or Clerk of Circuit Court and Comptroller.
- O. The following personnel are designated by the Clerk as having the authority to initiate all investment activities:
 - 1. Clerk of Circuit Court and Comptroller
 - 2. Financial Services Director
 - 3. Banking Administrator
 - 4. Assistant Financial Services Director
 - 5. Accounting Division Supervisor
 - 6. Investment Advisor

7. Other designees, at the discretion of the Clerk of Circuit Court or Financial Services Director.
- P. Additional controls will be established in written policies and procedures by the Clerk as needed.

XVI. CONTINUING EDUCATION

The Clerk of Circuit Court and Comptroller, Financial Services Director and Investment Administrator must annually complete eight (8) hours of continuing education in subjects or courses of study related to investment practices and products.

XVII. SALE OF SECURITIES

- A. From time to time, securities may be traded for other similar securities or sold to improve yield, maturity or credit risk. For these types of transactions, a temporary loss may be incurred for accounting purposes, provided the loss is more than offset by the higher yield. The following circumstances are considered appropriate for a swap/sale to be considered:

1. The yield can be increased.

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

2. The maturity length can be reduced.

Market aberrations occasionally create a situation where longer maturity securities are yielding the same or less than securities with a shorter maturity. Portfolio quality can be improved by switching from the longer maturity security to the shorter maturity with little or no interest penalty.

3. The quality of the investment can be improved.

Market aberrations occasionally create a situation where certain higher risk securities yield the same or less than an equivalent lower risk security. Portfolio quality can be improved by switching from the higher risk security to a lower risk security without any interest rate penalty.

- B. When invested funds are needed in whole or in part for the purposes originally intended or for more optimal investments, such investments may be sold, with prior approval from the Financial Services Director or Clerk of Circuit Court and Comptroller, at the then-prevailing market price.

- C. Credit ratings may fluctuate on municipal or corporate security holdings. Should the credit rating on a security held in the portfolio fall below minimum purchase requirements, the Financial Services Director will be notified immediately. A thorough review of the security will be conducted to determine if sale of the security is warranted. If market conditions allow or practicable, a sale will be conducted upon joint decision of the Investment Administrator or other designee (XV.O.6.), Financial Services Director, and/or Clerk of Circuit Court and Comptroller. If market conditions do not allow and/or are not practicable, sole authority to sell a security may be delegated to the Investment Administrator or other designee (XV.O.6).
1. Should the credit rating on a security held in the portfolio fall below minimum purchase requirements as a result of a rating agency's general recalibration of how they rate issuers and not due to any material changes in the underlying fundamentals of the issuer and not as the result of a change in the rating agency's opinion of the credit quality of the affected issuer, a sale of the security will not be required.
- D. When portfolio composition guidelines have been exceeded it may become necessary to sell an investment or a portion of an investment to maintain compliance with portfolio composition guidelines. A thorough review of the security will be conducted to evaluate the security's fundamental value and if loss would occur due to sale. Consideration will be given to future portfolio purchases, maturities and the amount of excess above the stated portfolio composition guidelines. Sale of a security or a portion of a security at a loss to meet compliance guidelines will be conducted as a last resort and only upon joint decision of the Investment Administrator or other designee (XV.O.6.), Financial Services Director and/or Clerk of Circuit Court and Comptroller.
- E. Portfolio rebalancing is meant to add economic value to a portfolio under circumstances prevailing during the rebalancing process. This may necessitate the sale of securities at a loss in order to reduce portfolio risk (without a material reduction in portfolio return) or to achieve a greater overall return (without assuming material amounts of additional risk) that could have been obtained if the original position(s) had been held. Portfolio rebalancing should be completed in such a manner as to minimize the amount of realized loss. The effects of investment purchases, maturities and sales should be considered when determining a rebalancing strategy. In recognition that specific investments and markets are dynamic and that relative values can change over time, it is the policy to review and pursue those opportunities that are consistent with long term optimization. It is the policy of the County to manage the investments within the constraints outlined in these policies by regularly re-assessing their analysis and projected performance and by making timely re-allocations.

XVIII. ANNUAL AUDITS

During the Auditor General's review of audit reports of local governments, the Auditor General shall contact those local governments not in compliance with Florida Statutes Chapter 218.415 and request evidence of corrective action.

A. If notified of noncompliance, the Investment Administrator will immediately:

1. Notify the Financial Services Director and Clerk of Circuit Court and Comptroller.
2. Implement corrective action.
3. Forward evidence of the corrective action taken to the Auditor General within 30 days.

IXX. POLICY REVIEW AND AMENDMENT

The Investment Administrator will review these policies in their entirety on an annual basis and make any recommendations to the Clerk of Circuit Court and Comptroller and Financial Services Director, if changes are needed.

The Policy may be amended in writing with approval by the Clerk of Circuit Court and Comptroller and the Board of County Commissioners.



BOARD OF COUNTY COMMISSIONERS
OF HERNANDO COUNTY, FLORIDA

Attest:

Don Barbee Jr.
Clerk of Circuit Court and Comptroller

Nicholas W. Nicholson
Chairman