

## District Board of Trustees Policy (BOT)



**Policy Title:** Florida Southwestern State College Investment Policy  
**Policy Number:** 6Hx6:1.06

**Specific Authority:**  
Florida Statute 218.415  
Florida Administrative Code 6A-14.0765

**Policy Approved:** 02/26/08; 02/18/09; 11/24/09; 06/26/12; 01/27/15; 04/24/18

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### **Policy:**

#### **I. PURPOSE**

The purpose of this Investment Policy (hereinafter "Policy") is to set forth the investment objectives and parameters for the management of the funds of the Florida SouthWestern State College District Board of Trustees, (hereinafter the "College"). This Policy is designed to ensure the prudent management of surplus funds, the availability of surplus funds when needed, and an investment return competitive with comparable funds and financial market indices.

#### **II. SCOPE AND GENERAL GUIDELINES**

- A. This Investment Policy applies to the surplus funds, in excess of those required to meet current expenses ("Fund") managed by the Investment Manager ("Manager"), for the benefit of the Florida SouthWestern State College District Board of Trustees.
- B. Management of the Fund shall be in accordance with Chapter 218.415, FS, State Board of Education rule 6A-14.0765, and Florida SouthWestern State College policy.
- C. Subject to the limitations provided above and throughout the Investment Policy, the Investment Manager shall have managerial discretion in terms of asset mix, security selection and timing of transactions.

#### **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

The portfolio 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 adviser 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 Manager(s) 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**

Responsibility for the administration of the investment program is hereby delegated to the Vice President Administrative Services, who shall maintain an Investment Procedures and Internal Controls Manual based on this Policy. The Vice President Administrative Services shall be responsible for monitoring internal controls, administrative controls and to regulate the activities of the College's staff involved with the investment program. The College may employ an Investment Manager(s) to assist in managing some of the College's surplus funds. Such Investment Manager(s) must be registered under the Investment Advisers Act of 1940.

#### **V. PRUDENCE AND ETHICAL STANDARDS**

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 Trustees 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 any material financial interests in financial institutions that conduct business with the College, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the College's investment program.

**VII. INTERNAL CONTROLS AND INVESTMENT PROCEDURES**

The Vice President Administrative Services will establish a system of internal controls as described in College Operating Procedure 04-0706, as it may be amended from time to time. The internal controls will be reviewed by Independent Auditors as part of any financial audit periodically required to ensure compliance with policies and procedures. The controls will be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the College.

**VIII. RISK AND DIVERSIFICATION**

Investments held shall be diversified to the extent practicable to control the risk of loss resulting from over concentration of assets in a specific duration, issuer, instrument, dealer or bank through which financial instruments are bought and sold. Diversification strategies shall be reviewed and revised quarterly by the Vice President Administrative Services.

**IX. CONTINUING EDUCATION**

The Vice President Administrative Services, management designee and/or appropriate staff shall annually complete eight (8) hours of continuing education in subjects or courses of study related to investment practices and products.

**X. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS**

The Investment Manager will maintain an approved list of investment institutions and dealers for the purchase and sale of securities. The Investment Manager is responsible for establishing and maintaining the approved list.

**XI. MATURITY AND LIQUIDITY REQUIREMENTS**

The Fund shall be constructed in such a manner as to provide sufficient liquidity to pay obligations as they come due. To the extent possible, investment maturities will be

matched with known cash needs and anticipated cash-flow requirements, but in no event shall exceed five and a half (5.50) years.

## **XII. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS**

After the Investment Manager(s) has determined the approximate maturity date based on cash flow needs provided by the College and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) Qualified Institutions and/or Primary Dealers must be contacted and asked to provide bids/offers on securities in questions. Bids will be held in confidence until the bid deemed to best meet the investment objectives is determined and selected.

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

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

Investment Manager(s) 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 Manager(s), competitive bidding would inhibit the selection process.

Examples of when this method may be used include:

- A. When time constraints due to unusual circumstances preclude the use of the competitive bidding process
- B. When no active market exists for the issue being traded due to the age or depth of the issue
- C. When a security is unique to a single dealer, for example, a private placement
- D. When the transaction involves new issues or issues in the "when issued" market

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

### **XIII. AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION**

Investments should be made subject to the cash flow needs and such cash flows are subject to revisions as market conditions and the College's needs change. However, when the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, the Investment Manager(s) may sell the investment at the then-prevailing market price and place the proceeds into the proper account at the College's custodian.

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the College. The Vice President Administrative Services and/or Investment Manager(s) shall have the option to further restrict investment percentages from time to time based on market conditions, risk and diversification investment strategies. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment at the time of purchase. Investments not listed in this Policy are prohibited.

In the event of a ratings downgrade of a security, the Investment Manager(s) shall notify the Vice President Administrative Services within five business days of such a decline in the required rating. The Investment Manager(s) and the Vice President Administrative Services will review the individual facts and circumstances of the situation and determine an appropriate course of action.

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In accordance with Section 218.415 (16), Florida Statutes, investments shall be limited to fixed income securities selected from the following types: <b>Sector</b>	<b>Sector Maximum (%)</b>	<b>Per Issuer Maximum (%)</b>	<b>Minimum Ratings Requirement<sup>1</sup></b>	<b>Maximum Maturity</b>
U.S. Treasury	100%	100%	N/A	5.50 Years
Other U.S. Government Guaranteed		10%		
Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB	75%	40% <sup>4</sup>	N/A	5.50 Years
Federal Agency/GSE other than those above		10%		
Supranationals where U.S. is a shareholder and voting member	25%	10%	Highest ST or LT Rating (A-1+/P-1, AAA/Aaa, or equivalent)	5.50 Years
Corporates	50% <sup>2</sup>	5% <sup>3</sup>	Three Highest LT Rating Categories (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 (MBS)	25%	40% <sup>4</sup>	N/A	5.50Years Avg. Life <sup>5</sup>
Asset-Backed Securities (ABS)	25%	5%	Highest ST or LT Rating (A-1+/P-1, AAA/Aaa, or equivalent)	5.50 Years Avg. Life <sup>5</sup>
Non-Negotiable Certificate of Deposit and Savings Accounts	50%	25%	None, if fully collateralized.	2 Years
Commercial Paper (CP)	50% <sup>2</sup>	5% <sup>3</sup>	Highest ST Rating Category (A-1/P-1, or equivalent)	270 Days
Bankers' Acceptances (BAs)	10% <sup>2</sup>	5% <sup>3</sup>	Highest ST Rating Category (A-1/P-1, or equivalent)	180 Days
Repurchase Agreements (Repo or RP)	40%	20%	Highest Counterparty Rating Category (A-1/P-1, or equivalent)	1 Year
Money Market Funds (MMFs)	100%	25%	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A
Fixed-Income Mutual Funds	20%	20%	Subject to specific review and approval by governing body	N/A

In accordance with Section 218.415 (16), Florida Statutes, investments shall be limited to fixed income securities selected from the following types: <b>Sector</b>	<b>Sector Maximum (%)</b>	<b>Per Issuer Maximum (%)</b>	<b>Minimum Ratings Requirement<sup>1</sup></b>	<b>Maximum Maturity</b>
Intergovernmental Pools (LGIPs)	100%	50%	Highest Fund Quality and Volatility Rating Categories by all NRSROs, if rated (AAAm/AAAf, S1, or equivalent)	N/A
Florida Local Government Surplus Funds Trust Funds ("Florida Prime")	25%	N/A	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A

**Notes:**

- <sup>1</sup> Rating by at least one Nationally Recognized Statistical Ratings Organization ("NRSRO"). ST=Short-term; LT=Long-term.
- <sup>2</sup> Maximum allocation to all corporate and bank credit instruments is 50% combined.
- <sup>3</sup> Maximum across all permitted investment sectors (excluding Treasuries, U.S. Federal Agencies, Agency MBS, Non-Negotiable CD's, Savings Accounts, Repos, Mutual Funds, LGIPs, and Florida Prime) is 5% combined per issuer.
- <sup>4</sup> Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.
- <sup>5</sup> The maturity limit for MBS and ABS is based on the expected average life at time of purchase, 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** - U.S. Treasury obligations and obligations the principal and interest of which are backed 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. **Supranationals** – Debt obligations issued by multi-national financial organizations of which the U.S. is a shareholder and voting member, and which are denominated in U.S. dollars.
4. **Corporates** - Investment-grade corporate notes or bonds available for purchase in the U.S. and issued or guaranteed by a domestic corporation or financial institution.
5. **Municipals** - Investment-grade municipal debt obligations, whether taxable or tax-exempt, issued or guaranteed by a U.S. state or local government, agency, authority, municipality, subdivision or other municipal entity.
6. **Agency Mortgage Backed Securities** - Mortgage-backed securities (MBS), backed by residential, multi-family or commercial mortgages, that are fully guaranteed as to principal

and interest by a U.S. Federal agency or government sponsored enterprise, including but not limited to pass-throughs, collateralized mortgage obligations (CMOs) and REMICs.

7. **Asset-Backed Securities** - Asset-backed securities (ABS) whose underlying collateral consists of loans, leases or receivables, such as auto loans/leases, credit card receivables, student loans, equipment loans/leases, or home-equity loans.
8. **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, FS.
9. **Commercial Paper** - Commercial paper available for purchase in the U.S. and issued or guaranteed by a domestic corporation, company, financial institution or trust, including both unsecured debt and asset-backed programs.
10. **Bankers' Acceptances** - Bankers' acceptances issued, drawn on, or guaranteed by a U.S. bank or U.S. branch of a foreign bank.
11. **Repurchase Agreements** - Repurchase agreements (Repo or RP) that meet the following requirements:
  - a. Must be governed by a signed SIFMA Master Repurchase Agreement.
  - b. Must use a third party custodian to hold collateral, and may be of deliverable or tri-party form.
  - c. Acceptable collateral includes 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.
  - d. Collateral must at all times have a current market value of at least 102% of the current value of the principal and accrued interest of the agreement.
  - e. Final term of the agreement must be 1 year or less.
12. **Money Market Funds** - Shares in open-end and no-load money market funds, provided such funds are registered under the Investment Company Act of 1940, seek to maintain a \$1.00 net asset value, and operate in accordance with 17 CFR §270.2a-7.

A thorough investigation of any money market fund is required prior to investing, and on an annual basis. Attachment B is a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool/fund. A current prospectus must be obtained.

13. **Fixed-Income Mutual Funds** - Shares in fixed-income mutual funds, but only after review and approval by the governing body.
14. **Local Government Investment Pools** – Intergovernmental, local government or state-sponsored investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in s. 163.01, FS.

A thorough investigation of any intergovernmental investment pool is required prior to investing, and on an annual basis. Attachment B is a questionnaire that contains a list of



questions, to be answered prior to investing, that cover the major aspects of any investment pool/fund. A current prospectus must be obtained.

15. **The Florida Local Government Surplus Funds Trust Funds (“Florida Prime”)** A thorough investigation of the Florida Prime is required prior to investing, and on an annual basis. Attachment B is a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool/fund. A current prospectus or portfolio report must be obtained.

### **Portfolio Limits and Other Specifications**

1. All investments must be denominated in U.S. dollars.
2. All limits and rating requirements apply at time of purchase.
3. Ratings requirements are for any one Nationally Recognized Statistical Ratings Organization (“NRSRO”).
4. Maturity and average life are measured from settlement date.
5. The maximum maturity (or average life for MBS/ABS) from settlement of any investment is five and a half (5.50) years.
6. The minimum credit quality of any investment in the portfolio is A-/A3 long-term, or A-1/P-1 short-term, or its equivalent, by one NRSRO.
7. The maximum effective duration of the aggregate portfolio is three (3) years.
8. The maximum investment in any issuer (excluding U.S. Treasuries, U.S. Federal Agencies, Agency MBS, Non-Negotiable CD’s, Savings Accounts, Repos, Mutual Funds, LGIPs, and Florida Prime) across all permitted investment types cannot exceed 5 percent.
9. Investment in callable, step-up callable and puttable securities is permitted.
10. Investment in variable-rate and floating-rate securities is permitted.
11. Subordinated, secured and covered debt is permitted if it meets the ratings requirements for the sector.
12. Zero coupon issues and strips are permitted, except for MBS.
13. Treasury TIPS are permitted.
14. Should a security fall below the minimum credit rating requirement dictated by this policy, the Investment Advisor will notify the College.
15. **The following are NOT PERMITTED:**
  - a. Reverse repurchase agreements
  - b. Floating rate securities whose coupon floats inversely to an index or whose coupon is determined based upon more than one index
  - c. Tranches of Collateralized Mortgage Obligations (CMO) which receive only the interest or principal from the underlying mortgage securities; commonly referred to as “IO’s” and “PO’s”
  - d. Derivatives and other securities whose future coupon may be suspended because of the movement of interest rates or an index. The only exceptions allowed are (1)

“plain vanilla” floating rate notes which would have their coupon rate of interest directly linked to a published interest rate index such as LIBOR or U.S. Treasury Bills and (2) other authorized investments specifically listed above which, by the most strict interpretation, may be considered a derivative (e.g. AAA-rated Asset-Backed and Mortgage-Backed Securities).

- e. Any financial institution or company domiciled in the United States, or foreign subsidiary of a company domiciled in the United States, which directly or through a United States or foreign subsidiary makes any loan, extends credit of any kind or character, advances funds in any manner, or purchases or trades any goods or services with Cuba, the government of Cuba, or any company doing business in Cuba in violation of federal law.
- f. Any financial institution or company domiciled outside of the United States if the President of the United States has applied sanctions against the foreign country in which the institution or company is domiciled pursuant to Sec. 4 of the Cuban Democracy Act of 1992.
- g. Derivatives (other than callables, and traditional floating or variable-rate instruments)
- h. Futures and options
- i. Convertible debt
- j. Equities
- k. Mutual funds, other than money market funds, unless specifically approved by the governing body
- l. Mortgage-backed Interest-only (I/Os) and principal-only (P/Os) structures
- m. Inverse floating-rate instruments
- n. Leveraged floating-rate instruments
- o. Currency, equity or index-linked notes or other structures that could return less than par at maturity
- p. Range notes
- q. Use of leverage
- r. Short sales

#### XIV. PERFORMANCE MEASUREMENT

In order to assist in the evaluation of the portfolios' performance, the College will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks will allow the College 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 and Poor's Rated GIP Index/Government Index's gross of fees average yield for the last 30 days. The Standard & Poor's GIP Index/Government Index represents Government Investment Pools that maintain a stable net asset value of \$1 per share with a weighted average maturity of 60 days and is rated in Standard & Poor's two highest money market fund rating categories: "AAAm" and "AAM." Investments of current operating funds shall have maturities of no longer than twelve (12) months.

- B. Investment performance of funds designated as core funds (or “Investment Portfolio”) and other non-operating funds that have a longer-term investment horizon will be compared to the Bank of America Merrill Lynch 1-3 Year U.S. Treasury Note Index or the Bank of America Merrill Lynch 1-5 Year U.S. Treasury Note Index, and the portfolio’s total rate of return will be compared to the appropriate benchmark. The appropriate index will have a duration and asset mix that approximates the portfolios and will be utilized as a benchmark to be compared to the portfolios’ total rate of return.

## **XV. REPORTING**

Unless otherwise indicated, the following are the responsibilities expected of the Investment Manager:

- A. Monthly reporting of holdings and transactions occurring in the Fund to the Florida SouthWestern State College. This report is to include at least (1) all assets held by the Fund by class/type, book value, approximate market value, income earned, accrued income and (2) all transactions occurring in the Fund during the month.
- B. Quarterly reporting of the Fund’s performance. The Investment Manager will report the Fund’s total rate of return, which reflects the true earnings of the Fund and incorporates cash flows, changes in market value and income earned to the Florida SouthWestern State College. The report will also include:
  - a) Recent market conditions, economic developments and anticipated investment conditions.
  - b) The investment strategies employed in the most recent quarter.
  - c) A description of all securities held in investment portfolios at month-end.
  - d) The total rate of return for the quarter, year-to-date and prior twelve (12) month period versus appropriate benchmarks.

Any areas of the Policy concern warranting possible revisions to current or planned investment strategies. The market values presented in these reports will be consistent with accounting guidelines in GASB Statement 31 and future GASB Statements.

- C. Calculation of the Fund’s total rate of return will comply with the performance measurement standards in accordance with The CFA Institute’s Global Investment Performance Standards (GIPS).

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

All securities purchased by Florida SouthWestern State College or by its approved Investment Manager under this Policy shall be properly designated as an asset of the College and held in safe keeping by a third party custodial bank or other third party custodial 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, 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.

If a bank or trust company serves in the capacity of Investment Manager, said bank or trust company could also perform required custodial and reporting services. No withdrawal of securities, in whole or in part, shall be made from safekeeping except by those designated within the Investment Management and Custodial Agreement between the Custodian and the College.

The custodian shall provide the Vice President Administrative Services or designee with safekeeping statements that provide detail information on the securities held by the custodian. On a monthly basis, the custodian will also provide reports that list all securities held for the College, the book value of holdings and the market value as of month-end.

Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

## **XVII. MASTER REPURCHASE AGREEMENT**

All approved institutions and dealers transacting repurchase agreements are to execute and perform as stated in the Securities Industry and Financial Markets Association (SIFMA) master repurchase agreement and all transactions are to adhere to the requirements of the SIFMA master repurchase agreement.