CITY OF MIRAMAR
PROPOSED CITY COMMISSION AGENDA ITEM

Meeting Date: June 16, 2021

Presenter's Name and Title: Ian Evans-Smith, Treasurer

Prepared By: Ian Evans-Smith, Treasurer

Temp. Reso. Number: 7422

Item Description: Temp. Reso. #R 7422 APPROVING THE CITY'S INVESTMENT POLICY, PURSUANT TO THE GUIDELINES SET FORTH IN SECTION 218.415, FLORIDA STATUTES, RELATING TO THE INVESTMENT OF SURPLUS FUNDS BY UNITS OF LOCAL GOVERNMENT; AUTHORIZING THE CITY MANAGER TO EXECUTE THE APPROPRIATE AGREEMENT. (Treasurer Ian Evans-Smith)

Consent ☒ Resolution ☐ Ordinance ☐ Quasi-Judicial ☐ Public Hearing ☐

Instructions for the Office of the City Clerk: none

Public Notice – As required by the Sec. ____ of the City Code and/or Sec. ___, Florida Statutes, public notice for this item was provided as follows: on ________ in a _______________ ad in the __________________; by the posting the property on __________________ and/or by sending mailed notice to property owners within ____ feet of the property on _______________ (fill in all that apply)

Special Voting Requirement – As required by Sec. _____, of the City Code and/or Sec. ____, Florida Statutes, approval of this item requires a ________________________ (unanimous, 4/5ths etc.) vote by the City Commission.

Fiscal Impact: Yes ☐ No ☒

REMARKS: No Fiscal Impact

Content:

- **Agenda Item Memo from the City Manager to City Commission**
- **Resolution TR7422**
    - **Exhibit A: Investment Policy**

MIRAMAR
BEAUTY AND PROGRESS
EST 1955

CITY OF MIRAMAR
INTEROFFICE MEMORANDUM

TO: Mayor, Vice Mayor, & City Commissioners

FROM: Vernon E. Hargray, City Manager

BY: Kevin E. Adderley, Director of Financial Services

DATE: June 10, 2021

RE: Temp. Reso. No. 7422, approving the updated Investment Policy for the City of Miramar

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RECOMMENDATION: The City Manager recommends adoption of Temp. Reso. No. 7422, authorizing the approval of the City's updated Investment Policy.

ISSUE: Approval of the City Commission is required to update the Investment Policy for the City of Miramar. Updating the Investment Policy will allow for more diversity in the investment types and allow the City to engage the services of a third-party vendor for investment management services.

BACKGROUND: The current Investment Policy was last updated and approved by the City Commission on September 5, 2001.

DISCUSSION: Over the years, changes have taken place affecting investment types, market conditions and Florida statutes governing municipal investment activities and perceived financial changes which requires a fresh look at our policies in order to remain up to date. The City's investment portfolio is actively managed to attain the highest available market rate of return while preserving capital, liquidity and operating in the scope of the investment policy.

The City, in looking at long term goals regarding the investing of surplus funds, has also considered the benefits of being able to engage the services of a third-party entity as needed. Expertise and qualifications of an investment manager/advisor will allow assistance to the City in realizing the desired investment goals.

ANALYSIS: The updated Investment Policy will allow the City to meet its objective to expand and diversify its investment portfolio of surplus funds, in addition to providing staff the capability to engage the services of an investment manager.

Temp. Reso. No. 7422
5/26/21
6/9/21

CITY OF MIRAMAR
MIRAMAR, FLORIDA

RESOLUTION NO. ________

A RESOLUTION OF THE CITY COMMISSION OF THE CITY OF MIRAMAR, FLORIDA, APPROVING THE CITY'S INVESTMENT POLICY, PURSUANT TO THE GUIDELINES SET FORTH IN SECTION 218.415, FLORIDA STATUTES, RELATING TO THE INVESTMENT OF SURPLUS FUNDS BY UNITS OF LOCAL GOVERNMENT; AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, the City of Miramar has invested surplus funds pursuant to the guidelines set forth in Section 218.415(5), Florida Statutes; and

WHEREAS, the Florida Senate Bill 372 revises and limits the available investment types unless the unit of local government adopts a specific written Investment Policy; and

WHEREAS, the Director of Financial Services and the Investment Team, with the approval of the City Manager, will formulate alternative investment strategies and short-range direction within the guidelines herein set forth and for monitoring the performance and structure of the City's investment portfolio: and

WHEREAS, the City of Miramar reserved the option to engage the expertise of a third-party investment manager/advisor to allow assistance to the City in realizing the desired investment goals; and

WHEREAS, the City Manager recommends approval of the updated Investment Policy that allows for the continuation of flexibility of investments as outlined in Exhibit “A”; and

WHEREAS, the City Manager deems it to be in the best interests of the citizens and residents of the City of Miramar to approve the Investment Policy; and

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF MIRAMAR, FLORIDA AS FOLLOWS:

Section 1: That the foregoing **"WHEREAS"** clauses are ratified and confirmed as being true and correct and are made a specific part of this Resolution.

Section 2: That the City Commission approves the Investment Policy of the City of Miramar, attached as Exhibit “A”, as authorized under Section 218.415, Florida Statutes, as amended by State of Florida Senate Bill 372.

Section 3: That the appropriate City Officials are authorized to do all things necessary and expedient to carry out the aims of this Resolution.

Temp. Reso. No. 7422
5/26/21
6/9/21

PASSED AND ADOPTED this ______ day of _______________________, _______.

____
Mayor, Wayne M. Messam

____
Vice Mayor, Yvette Colbourne

ATTEST:

____
City Clerk, Denise A. Gibbs

I HEREBY CERTIFY that I have approved
this RESOLUTION as to form:

____
City Attorney,
Austin Pamies Norris Weeks Powell, PLLC

Requested by Administration	**Voted**
Commissioner Winston F. Barnes	_____
Commissioner Maxwell B. Chambers	_____
Vice Mayor Yvette Colbourne	_____
Commissioner Alexandra P. Davis	_____
Mayor Wayne M. Messam	_____

CITY OF MIRAMAR		DATE ISSUED MAY 26, 2021
INVESTMENT POLICY	REQUIREMENT: 7.1-7.2 APPROVED	
	CITY MANAGER OR DESIGNEE	
	DEPARTMENT DIRECTOR	
	INTERNAL AUDITOR	

SUBJECT:

INVESTMENT POLICY

PURPOSE

The purpose of this Investment Policy is to set forth the investment objectives and parameters for the management of public funds of the City of Miramar. These policies are designated to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

SCOPE

This investment policy applies to all financial assets and transactions involving surplus funds held by the City of Miramar other than pension fund assets, funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds, or other funds that are held by a third-party custodian and are outside of the scope of this investment policy. All funds and investments are accounted for in the City's annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Trust and Agency Funds
- Debt Service Funds
- Internal Service Funds
- New funds created by the City, not specifically exempted from this policy

INVESTMENT OBJECTIVES

- **Safety of Capital**
  Safety of capital is regarded as the highest priority in the handling of investments for the City. The primary concern of each investment transaction will be to prevent capital losses. Efforts will be employed to minimize risk by diversifying its investments between specific types and individual financial institutions.

- **Liquidity**
  The City's investment portfolio will remain sufficiently liquid to enable the City to meet operating requirements that might be reasonably anticipated, and those set forth in the annual budget.
- **Return on Investments**
  The City's investment portfolio shall be actively managed in an effort to attain the highest available market rate of return while still operating within the scope of this Investment Policy. Securities may be traded for other similar securities to improve interest income, maturity or credit risk. A loss may be incurred for accounting purposes, provided any of the following occurs; the interest income has been increased, the time to maturity has been reduced, the credit quality has been improved, or to enhance the total return of the portfolio.

DELEGATION OF AUTHORITY

The Director of Financial Services is responsible for investment decisions and activities, under the direction of the City Manager. The day-to-day administration of the cash management program is handled by the City's Treasurer or designee of the Director of Financial Services. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures so established. The City may engage an investment advisor to assist in managing the City’s portfolio. Such investment advisor must be registered with the SEC under the Investment Advisors Act of 1940.

INVESTMENT TEAM

The Director of Financial Services, with the approval of the City Manager, will establish an Investment Team for the purpose of formulating alternative investment strategies and short-range direction within the guidelines herein set forth and for monitoring the performance and structure of the City's investment portfolio. Members of the team shall include the Director of Financial Services, the Treasurer, and at least two other financial professionals employed in the City of Miramar Financial Services Department and may include other members as may be designated by the Director of Financial Services and/or City Manager.

The Investment Team activities shall include but not be limited to review and setting investment strategies; review and establishing of written investment procedures; review of applicable ratings services such as Moody's and S&P; review and approval of source documentation regarding issuers, institutions and broker/dealers, and any other functions defined herein.

The Director of Financial Services shall designate a member of the team to provide, upon request, current market information, an updated portfolio listing and analysis. The team, or quorum thereof, shall meet quarterly, or as often as deemed necessary, under the given conditions, to review, discuss, and affirm or alter the current investment strategy and perform various other functions as herein provided.

INTERNAL CONTROLS

The Director of Financial Services, Treasurer and all other members shall establish and monitor internal and procedural controls designed to protect the City's assets and ensure proper accounting and reporting. Such controls shall include "delivery vs payment" procedures and trust receipt documentation.
Internal controls will encompass, at a minimum, the following issues:

- Separation of authority including transaction authority from accounting and record keeping.
- Custodial safekeeping.

- Avoidance of bearer-form or non-wireable securities.
- Delegation of authority to staff members.
- Written confirmation of telephone transactions.

CONTINUING EDUCATION

The Director of Financial Services and all other members of the investment team that may be responsible for making investment decisions must annually complete eight (8) hours of continuing
education in subjects or courses of study related to investment practices and products. Periodic training and education will be provided to investment team members through courses and seminars offered by Government Finance Officers Associations, Municipal Treasurers Associations, Trustee Associations, approved colleges and universities and/or other qualified and pertinent organizations.

PRUDENCE

The standard of prudence to be applied by the investment team will be the "Prudent Person" rule, which states: "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 derived."
The investment team members, acting in accordance with the written procedures and exercising due diligence, will not be held personally liable for a specific security's credit risk or adverse market price changes, provided that these deviations are reported immediately to the Director of Financial Services and that appropriate action is taken to control 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 advisor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct 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.

INVESTMENT PERFORMANCE AND REPORTING

Performance of the portfolio will be reported periodically and submitted to the Director of Financial Services for review. These reports should include current market value, investment details, and other material characteristics of the portfolio. In addition, a designee of the Director of Financial Services will report to the other members of the Investment Team an economic outlook and market.

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

- Funds designated as short-term funds and other funds that must maintain a high degree of liquidity will be compared to the S&P Rated GIP All Index 30-Day Gross of Fees Yield.

- The long-term investment portfolio shall be designed with the annual objective of exceeding the return of the ICE BAML1-3 Year Treasury Index compared to the portfolio's total rate of return. The ICE BAML1-3 Year Treasury Index represents all U.S. Treasury securities maturing over one year, but less than three years. This maturity range is an appropriate benchmark based on the objectives of the City.

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. In accordance with the City's "Conflict of Interest Policy," employees involved in the investment process shall disclose any material financial interests in financial institutions that conduct business with the City, and they shall further disclose any material personal financial/investment positions that could indicate that an apparent conflict of interest exists.

INVESTMENT MATURITY AND LIQUIDITY

The City will make every attempt to match its investments with anticipated cash flow requirements. In order to meet projected cash requirements, the City will invest all surplus checking account balances into an investment that provides daily liquidity, such as a local government investment pool (LGIP) or money market fund, pending subsequent longer-term investment. Unless matched to a specific cash flow requirement, the City will generally not directly invest in securities maturing more than five (5) years from the date of purchase. Additionally, the portfolio's weighted average effective duration shall not exceed 3 years.

RISK AND DIVERSIFICATION

It is the policy of the City of Miramar to diversify its investment portfolio. Assets held shall be diversified to control the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific instrument and/or class of instruments and dealers through whom these instruments are bought or sold.
The Investment Team shall determine the approximate maturity dates desired, select one or more investment instruments and competitively bid the security when feasible and appropriate. Except as otherwise required by law, the most economically advantageous bid must be selected.
Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the appropriate management staff and the Investment Team.

CRITERIA FOR SELECTION OF FINANCIAL INTERMEDIARIES AND ISSUERS

Certificates of Deposit shall be purchased only from financial institutions that qualify under Florida Statutes. Other securities shall be purchased only through financial institutions that provide the service of a securities dealer, primary dealers, and regional broker dealers. These institutions, dealers and issuers must meet a minimum capital requirement of $10,000,000 and agree to comply with the SEC rule 15C3-1, Uniform Net Capital Requirements. They must also agree to immediately notify the City if the event of material adverse events affecting their capital adequacy. Prior to being added to the list of approved broker/dealers, the Director of Financial Services, or their designate, must receive a signed Certification Form, attesting that the individuals responsible for the City's accounts have reviewed the Investment Policy and they agree to undertake reasonable efforts to preclude imprudent investment transactions involving the City's funds.
Provisions for addition to, or deletion from the approved broker/dealer list will be based on the following criteria:

- Changes to the State statutes governing municipal investment activities
- Perceived financial difficulties
- Consistent lack of competitiveness of investment offerings to the City of Miramar
- Lack of experience or familiarity of the assigned account representative with respect to providing investment services to municipal institutional accounts
- By request of the institution or broker/dealer
- When deemed in the best interest of the City of Miramar

If the City should elect to have funds in the City's bank accounts "swept" into an "overnight repo", which collateralizes the City's funds for the night, to protect both parties, the City shall require utilization of a Master Repurchase Agreement.

BID REQUIREMENTS

When purchasing or selling securities, the team shall select the security which provides the highest rate of return within the parameters of this policy, given the current objectives and needs of the City's portfolio. In most situations, the City shall utilize the competitive bid process to select the securities to be purchased or sold. Selection by comparison to a current market price shall be utilized when, in the judgment of the team, competitive bidding would inhibit the selection process such as:

- When a dealer brings to the City an unsolicited swap or proposal
- When time constraints due to unusual circumstances preclude the use of competitive bidding
- When a security is unique to a particular dealer
- When the transaction involves new issues at par

PERMISSIBLE INVESTMENTS

Per Florida Statute 218.415(5), the following is a list of permissible investments. Although the day-to-day selection of specific investments is a management function, this section of the policy defines the parameters from which selections are to be made.

- **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.
- **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).
- **Corporates** – U.S. dollar denominated corporate notes, bonds or other debt obligations issued or guaranteed by a domestic corporation, financial institution, non-profit, or other entity.
- **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.
- **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.
- **Commercial Paper** – U.S. dollar denominated commercial paper issued or guaranteed by a domestic corporation, company, financial institution, trust or other entity, including both unsecured debt and asset-backed programs

- **Repurchase Agreements** - Repurchase agreements (Repo or RP) that meet the following requirements:
  - 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
  - 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.
  - Securities underlying repurchase agreements must be delivered to a third-party custodian under a written custodial agreement and may be of deliverable tri-party form. Securities must be held in the City's custodial account or in a separate account in the name of the City
  - 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
  - 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
  - Final Term of the agreement **must** be 1 year or less
- **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. **Attachment 1** 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
- **Local Government Investment Pools** – State, local government or privately-sponsored investment pools that are authorized pursuant to state law. A thorough investigation of any intergovernmental investment pool is required prior to investing, and on an annual basis. **Attachment 1** 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
- **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 1** 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

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement[1]	Maximum Maturity
U.S. Treasury	100%	100%	N/A	5 Years (5 year avg. life[2] 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 Years
Corporates	50%[2]	5%[3]	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3 or equivalent)	5 Years
Municipals	25%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)	5 Years
Non-Negotiable Certificate of Deposit and Savings Accounts	50%	25%	None, if fully collateralized.	1 Year
Commercial Paper (CP)	35%	5%[4]	Highest ST Rating Category (A-1/P-1, or equivalent)	270 Days
Repurchase Agreements (Repo or RP)	25%	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

			If the counterparty is a Federal Reserve Bank, no rating is required	
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)	50%	25%	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")	50%	N/A	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A

Notes:

[1] Rating by at least one Nationally Recognized Statistical Ratings Organization ("NRSRO"). ST=Short-term; LT=Long-term.

[2] 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.

[3] Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.

[4] Maximum across all permitted investment sectors (excluding Treasuries, U.S. Federal Agencies, Agency MBS, Non-Negotiable CD's, Savings Accounts, Repos, Money Market Funds, Mutual Funds, LGIPs, and Florida Prime) is 5% combined per issuer.

* 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).

GENERAL INVESTMENT AND PORTFOLIO LIMITS

- General investment limitations:
    - Investments must be denominated in U.S. dollars and issued for legal sale in U.S. markets.
    - Minimum ratings are based on the highest rating by any one Nationally Recognized Statistical Ratings Organization ("NRSRO"), unless otherwise specified.
    - All limits and rating requirements apply at time of purchase.
    - Should a security fall below the minimum credit rating requirement for purchase, the Investment Advisor will notify the Director of Financial Services.
    - The maximum maturity (or average life for MBS) of any investment is 5 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.

- General portfolio limitations:
    - The maximum effective duration of the aggregate portfolio is 3 years

- Investment in the following are permitted, provided they meet all other policy requirements:
    - Callable, step-up callable, called, pre-refunded, puttable and extendable securities, as long as the effective final maturity meets the maturity limits for the sector
    - Variable-rate and floating-rate securities
    - Subordinated, secured and covered debt, if it meets the ratings requirements for the sector
    - Zero coupon issues and strips, excluding agency mortgage-backed Interest-only structures (I/Os)
    - Treasury TIPS

- The following are **NOT PERMITTED** investments, unless specifically authorized by statute and with prior approval of the governing body:
    - Trading for speculation
    - Derivatives
    - Mortgage-backed interest-only structures (I/Os)
    - Inverse or leveraged floating-rate and variable-rate instruments
    - Currency, equity, index and event-linked notes (e.g. range notes), or other structures that could return less than par at maturity
    - 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
    - Convertible, high yield, and non-U.S. dollar denominated debt
    - Short sales
    - Use of leverage
    - Futures and options
    - Mutual funds, other than fixed-income mutual funds and ETFs, and money market funds
    - Equities, commodities, currencies and hard assets

THIRD - PARTY CUSTODIAL AGREEMENTS

All securities purchased by the City under this section shall be properly designated as an asset of the City of Miramar and held in safekeeping by a third-party custodial bank or other third party custodial institution, chartered by the United States Government or the State of Florida, and no withdrawal of such securities, in whole or in part, shall be made from safekeeping, except by the people authorized by this policy. The strongest assurance and control that the securities have been properly segregated on behalf of the local jurisdiction is provided by an independent third-party custodian.

DELIVERY VS PAYMENT

All investment transactions are to be performed on a Delivery vs Payment basis (DVP), whereby delivery of and payment for the security are simultaneous. Settlement shall occur at the third-party custodian as designated by the City prior to completion of the trade. Trades settled on a DVP basis minimize settlement risk and maximize accountability of the transaction: to maintain the City's ownership interest in the security.

POLICY REPORTING, REVIEW AND AMENDMENTS

The City's investment policy will be approved by the governing body and reviewed annually by the Investment Team. If investment conditions dictate a need for a modification of the Investment Policy prior to this annual review, the Director of Financial Services may submit such changes to the City Manager for approval. The Investment Policy shall be reviewed by the City's independent certified public accountants as part of any financial audit, including schedules reflecting holdings in the City portfolio and year-to-date returns on investment compared to the targeted yields. All investments will be adjusted annually, at fiscal year-end, to reflect the then current market value of the securities. The results of the adjustments will be incorporated into the financial records of the City. A statement of compliance with section 218.415, Florida Statute, shall be included in the Comprehensive Annual Financial Report, which is copied to the State of Florida Office of the Auditor General.

Attachment 1

Due Diligence for Money Market Funds

Prior to investing in a money market fund/local government investment pool, proper due diligence is required.

General Fund/Pool Information:

- Does the fund/pool attempt to maintain a stable net asset value or floating net asset value?
- How is interest distributed, and how are gains and losses treated?
- How often are statements and portfolio holdings distributed?
- Is the fund/pool eligible for bond proceeds and/or will it accept such proceeds?

Oversight:

- What is the fund/pool ratings by the Nationally Recognized Statistical Rating Organizations such as S&P, Moody's, Fitch, Kroll, etc.?
- What are the eligible investment securities? Is there a written statement of investment policy and objectives?
- How are the securities safeguarded (including the settlement processes)? How often are the
- securities priced? How often is the fund/pool audited?
- Is there any additional oversight outside of the Board of Trustees?

Fund/Pool Statistics:

- What is the current sector allocation of the fund/pool?
- What is the fee schedule, and how and when is it assessed?

Liquidity:

- Does the fund/pool follow GASB 79?
- Does the fund/pool have any liquidity fees? If so, describe the terms.
- Does the fund/pool have redemption gates? If so, describe them.

Investor Requirements:

- Who may invest in the program, how often, and what size deposits and withdrawals are allowed?
- Is there a limit regarding investor concentration? If so, what is it?

Attachment 2

Glossary

Accrued Interest: Interest earned but which has not yet been paid or received.

Agency: See "Federal Agency Securities."

Ask Price. Price at which a broker/dealer offers to sell a security to an investor. Also known as "offered price."

Asset Backed Securities (ABS): A fixed-income security backed by notes or receivables against assets other than real estate. Generally issued by special purpose companies that "own" the assets and issue the ABS. Examples include securities backed by auto loans, credit card receivables, home equity loans, manufactured housing loans, farm equipment loans and aircraft leases.

Average Life: The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

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

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

Bearer Security. A security whose ownership is determined by the holder of the physical security. Typically, there is no registration on the issuer's books. Title to bearer securities is transferred by delivery of the physical security or certificate. Also known as "physical securities."

Benchmark Bills: In November 1999, FNMA introduced its Benchmark Bills program, a short-term debt securities issuance program to supplement its existing discount note program. The program includes a schedule of larger, weekly issues in three- and sixth-month maturities and biweekly issues in one-year for Benchmark Bills. Each issue is brought to market via a Dutch (single price) auction. FNMA conducts a weekly auction for each Benchmark Bill maturity and accepts both competitive and non-competitive bids through a web-based auction system. This program is in addition to the variety of other discount note maturities, with rates posted on a daily basis, which FNMA offers. FNMA's Benchmark Bills are unsecured general obligations that are issued in book-entry form through the Federal Reserve Banks. There are no periodic payments of interest on Benchmark Bills, which are sold at a discount from the principal amount and payable at par at maturity. Issues under the Benchmark program constitute the same credit standing as other FNMA discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

Benchmark Notes/Bonds: Benchmark Notes and Bonds are a series of FNMA "bullet" maturities (non-callable) issued according to a pre-announced calendar. Under its Benchmark Notes/Bonds program, 2, 3, 5, 10 and 30-year maturities are issued each quarter. Each Benchmark Notes new issue has a minimum size of $4 billion, 30-year new issues having a minimum size of $1 billion, with reopening based on investor demand to further enhance liquidity.

The amount of non-callable issuance has allowed FNMA to build a yield curve in Benchmark Notes and Bonds in maturities ranging from 2 to 30 years. The liquidity emanating from these large size issues has facilitated favorable financing opportunities through the development of a liquid overnight and term repo market. Issues under the Benchmark program constitute the same credit standing as other FNMA issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Benchmark: A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance and duration of the actual portfolio's investments.

Bid Price: Price at which a broker/dealer offers to purchase a security from an investor.

Bond Market Association (BMA): The bond market trade association representing the largest securities markets in the world. In addition to publishing a Master Repurchase Agreement, widely accepted as the industry standard document for Repurchase Agreements, the BMA also recommends bond market closures and early closes due to holidays.

Bond: Financial obligation for which the issuer promises to pay the bondholder (the purchaser or owner of the bond) a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Entry Securities: Securities that are recorded in a customer's account electronically through one of the financial markets electronic delivery and custody systems, such as the Fed Securities wire, DTC and PTC (as opposed to bearer or physical securities). The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors' concerns about the certificates themselves. The vast majority of securities are now book entry securities.

Book Value: The value at which a debt security is reflected on the holder's records at any point in time. Book value is also called "amortized cost" as it represents the original cost of an investment adjusted for amortization of premium or accretion of discount. Also called "carrying value." Book value can vary over time as an investment approaches maturity and differs from "market value" in that it is not affected by changes in market interest rates.

Broker/Dealer: A person or firm transacting securities business with customers. A "broker" acts as an agent between buyers and sellers and receives a commission for these services. A "dealer" buys and sells financial assets from its own portfolio. A dealer takes risk by owning inventory of securities, whereas a broker merely matches up buyers and sellers. See also "Primary Dealer."

Bullet Notes/Bond: Notes or bonds that have a single maturity date and are non-callable.

Call Date: Date at which a call option may be or is exercised.

Call Option: The right, but not the obligation, of an issuer of a security to redeem a security at a specified value and at a specified date or dates prior to its stated maturity date. Most fixed-income calls are at par but can be at any previously established price. Securities issued with a call provision typically carry a higher yield than similar securities issued without a call feature. There are three primary types of call options (1) European - one-time calls, (2) Bermudan - periodically on a predetermined schedule (quarterly, semi-annual, annual), and (3) American - continuously callable at any time on or after the call date. There is usually a notice period of at least 5 business days prior to a call date.

Callable Bonds/Notes: Securities, which contain an imbedded call option giving the issuer, has the right to redeem the securities prior to maturity at a predetermined price and time.

Certificate of Deposit (CD): Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity). Can be as long as 10 years to maturity, but most CDs purchased by public agencies are one year and under.

Collateral: Investment securities or other property that a borrower pledges to secure repayment of a loan, secure deposits of public monies, or provide security for a repurchase agreement.

Collateralization: Process by which a borrower pledges securities, property, or other deposits for securing the repayment of a loan and/or security.

Collateralized Mortgage Obligation (CMO): A security that pools together mortgages and separates them into short, medium, and long-term positions (called tranches). Tranches are set up to pay different rates of interest depending upon their maturity. Interest payments are usually paid monthly. In "plain vanilla" CMOs, principal is not paid on a tranche until all shorter tranches have been paid off. This system provides interest and principal in a more predictable manner. A single pool of mortgages can be carved up into numerous tranches each with its own payment and risk characteristics.

Commercial Paper: Short term unsecured promissory note issued by a company or financial institution. Issued at a discount and matures for par or face value. Usually a maximum maturity of 270 days and given a short-term debt rating by one or more Nationally Recognized Statistical Rating Organization (NRSRO).

Convexity: A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Corporate Note: A debt instrument issued by a corporation with a maturity of greater than one year and less than ten years.

Counterparty: The other party in a two-party financial transaction. "Counterparty risk" refers to the risk that the other party to a transaction will fail in its related obligations. For example, the bank or broker/dealer in a repurchase agreement.

Coupon Rate: Annual rate of interest on a debt security, expressed as a percentage of the bond's face value.

Current Yield: Annual rate of return on a bond based on its price. Calculated as (coupon rate / price) but does not accurately reflect a bond's true yield level.

Custody: Safekeeping services offered by a bank, financial institution or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement and market values.

Dealer: A dealer acts as a principal in all transactions, buying and selling for his own account.

Delivery vs. Payment (DVP): Settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Fed Securities Wire system and Depository Trust Company (DTC), are done DVP as a protection for both the buyer and seller of securities.

Depository Trust Company (DTC): A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs and BAs clear through DTC.

Derivatives: For hedging purposes, common derivatives are options, futures, swaps and swaptions. All Collateralized Mortgage Obligations ("CMOs") are derivatives. (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

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

Designated Bond: Farm Credit Designated Bonds are high credit quality, liquid, non-callable and callable securities. New issues of Designated Bonds are $1 billion or larger for non-callable securities and $500 million or larger for callable securities. Reopens of existing Designated Bond issues are generally a minimum of $100 million. Designated Bonds generally have a two to ten-year original maturity and are offered through a syndicate of two to six Bond Dealers. Callable Designated Bonds will contain one-time only "European" redemption features**.**

Discount Notes: Unsecured general obligations issued by Federal Agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year. There are very large primary (new issue) and secondary markets.

Discount Rate: Rate charged by the system of Federal Reserve Banks on overnight loans to member banks. Changes to this rate are administered by the Federal Reserve and closely mirror changes to the "fed funds rate."

Discount Securities: Non-interest-bearing money market instruments that are issued at discount and redeemed at maturity for full face value. Examples include U.S Treasury Bills, Federal Agency Discount Notes, Bankers' Acceptances and Commercial Paper.

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

Diversification: A method of reducing risk by investing in a variety of assets.

Dollar Price: A bond's cost expressed as a percentage of its face value. For example, a bond quoted at a dollar price of 95 ½, would have a principal cost of $955 per $1,000 of face value.

Duration: The weighted average maturity of a security's or portfolio's cash flows, where the present values of the cash flows serve as the weights. The greater the duration of a security/portfolio, the greater its percentage price volatility with respect to changes in interest rates. Used as a measure of risk and a key tool for managing a portfolio versus a benchmark and for hedging risk. There are also different kinds of duration used for different purposes (e.g. MacAuley Duration, Modified Duration).

Fannie Mae: See "Federal National Mortgage Association."

Fed Money Wire: A computerized communications system that connects the Federal Reserve System with its member banks, certain U. S. Treasury offices, and the Washington D.C. office of the Commodity Credit Corporation. The Fed Money Wire is the book entry system used to transfer cash balances between banks for themselves and for customer accounts.

Fed Securities Wire: A computerized communications system that facilitates book entry transfer of securities between banks, brokers and customer accounts. Used primary for settlement of U.S. Treasury and Federal Agency securities.

Fed: See "Federal Reserve System."

Federal Agency Security: A debt instrument issued by one of the federal agencies. Federal agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

Federal Agency: Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets. The largest Federal Agencies are GNMA, FNMA, FHLMC, FHLB, FFCB, SLMA, and TVA.

Federal Deposit Insurance Corporation (FDIC): The insurance coverage of public unit accounts depends upon the type of deposit and the location of the insured depository institution. All time and savings deposits owned by a public unit and held by the same official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to $250,000. Separately, all demand deposits owned by a public unit and held by the same official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to $250,000. For the purpose of these rules (Deposit Insurance for Accounts Held by Government Depositors), the term 'savings deposits' includes NOW accounts and money market deposit accounts but does not include interest-bearing demand deposit accounts (which was permitted after July 21, 2011) The term 'demand deposits' means deposits payable on demand and for which the depository institution does not reserve the right to require advance notice of an intended withdrawal.
For the period from December 31, 2010 through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) provides separate and unlimited deposit insurancecoverage for accounts that meet the definition of a 'non-interest-bearing transaction account.' This unlimited coverage for such accounts is separate from the $250,000 coverage provided for other types of accounts. Also, beginning on July 21, 2011, the Dodd-Frank Act provided that insured depository institutions will be permitted to pay interest on demand deposit accounts.

Federal Farm Credit Bank (FFCB): A Government Sponsored Enterprise (GS) system that is a network of cooperatively owned lending institutions that provides credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm-affiliated businesses. Consists of the consolidated operations of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks. Frequent issuer of discount notes, agency notes and callable agency securities. FFCB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and agricultural industry. FFCB also issues notes under its "designated note" program.

Federal Funds (Fed Funds): Funds placed in Federal Reserve Banks by depository institutions in excess of current reserve requirements, and frequently loaned or borrowed on an overnight basis between depository institutions.

Federal Funds Rate (Fed Funds Rate): The interest rate charged by a depository institution lending Federal Funds to another depository institution. The Federal Reserve influences this rate by establishing a "target" Fed Funds rate associated with the Fed's management of monetary policy.

Federal Home Loan Bank System (FHLB): A Government Sponsored Enterprise (GSE) system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its "global note" and "TAP" programs.

Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac"): A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages and participation interests financed by the sale of debt and guaranteed mortgage-backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "reference note" program.

Federal National Mortgage Association (FNMA or "Fannie Mae"): A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "benchmark note" program.

Federal Reserve Bank: One of the 12 distinct banks of the Federal Reserve System.

Federal Reserve System (The Fed). The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Fed Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven-member Board of Governors known as the "Federal Reserve Board" and headed by its Chairman.

Fiscal Agent/Paying Agent: A bank or trust company that acts, under a trust agreement with a corporation or municipality, in the capacity of general treasurer. The agent performs such duties as making coupon payments, paying rents, redeeming bonds, and handling taxes relating to the issuance of bonds.

Fitch Investors Service, Inc.: One of several “Nationally Recognized Statistical Rating Organization” (NRSRO) that provide credit ratings on corporate and municipal debt issues.

Floating Rate Security (FRN or “floater”): A bond with an interest rate that is adjusted according to changes in an interest rate or index. Differs from variable-rate debt in that the changes to the rate take place immediately when the index changes, rather on a predetermined schedule. See also “Variable Rate Security.”

Freddie Mac: See "Federal Home Loan Mortgage Corporation".

Ginnie Mae: See "Government National Mortgage Association".

Global Notes: Notes designed to qualify for immediate trading in both the domestic U.S. capital market and in foreign markets around the globe. Usually large issues that are sold to investors worldwide and therefore have excellent liquidity. Despite their global sales, global notes sold in the U.S. top U.S. investors are typically denominated in U.S. dollars.

Government National Mortgage Association (GNMA or "Ginnie Mae"): A government-owned corporation within the Department of Housing and Urban Development (HUD). Today, Ginnie Mae securities are the only mortgage-backed securities that offer the full faith and credit guaranty of the United States government. It acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities and is the largest issuer of mortgage pass-through securities. **Government Securities.** An obligation of the U.S. government backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, Bonds, and SLGS."

Government Sponsored Enterprise (GSE): Privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over Treasuries. Some consider GSEs to be stealth recipients of corporate welfare. Examples of GSEs include: FHLB, FHLMC, and FNMA.

Government Sponsored Enterprise Security: A security issued by a Government Sponsored Enterprise. Considered Federal Agency Securities.

ICE BAML 1-3 Year Treasury Index: Also known as the ICE BofA 1-3 Year US Treasury Index, the ICE BofA 1-3 Year US Treasury index is a subset of the ICE BofA US Treasury Index including all securities with a remaining term to final maturity of less than three years. The ICE BofA US Treasury Index tracks the performance of US dollar-denominated sovereign debt publicly issued by the US government in its domestic market.

Index: A compilation of statistical data that tracks changes in the economy or in financial markets.

Interest-Only (IO) STRIP: A security based solely on the interest payments from the bond. After the principal has been repaid, interest payments stop and the value of the security falls to nothing. Therefore, IOs are considered risky investments. Usually associated with mortgage-backed securities.

Internal Controls: An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1. the cost of a control should not exceed the benefits likely to be derived and 2. the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

- **Control of collusion:** Collusion is a situation where two or more employees are working in conjunction to defraud their employer
- **Separation of transaction authority from accounting and record keeping:** By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved
- **Custodial safekeeping:** Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
- **Avoidance of physical delivery securities:** Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
- **Clear delegation of authority to subordinate staff members:** Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- **Written confirmation of transactions for investments and wire transfers:** Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
- **Development of a wire transfer agreement with the lead bank and third-party custodian:** The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

Inverse Floater: A floating rate security structured in such a way that it reacts inversely to the direction of interest rates. Considered risky as their value moves in the opposite direction of normal fixed-income investments and whose interest rate can fall to zero.

Investment Advisor: A company that provides professional advice managing portfolios, investment recommendations and/or research in exchange for a management fee.

Investment Adviser Act of 1940: Federal legislation that sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Manager: A company that actively manages fixed income portfolios which include operating funds, capital reserves, insurance reserves, proceeds from the sale of bonds and other funds.

Investment Grade: Bonds considered suitable for preservation of invested capital; bonds rated a minimum of Baa3 by Moody's, BBB- by Standard & Poor's, or BBB- by Fitch. Although "BBB" rated bonds are considered investment grade, most public agencies cannot invest in securities rated below "A."

Liquidity: Relative ease of converting an asset into cash without significant loss of value. Also, a relative measure of cash and near-cash items in a portfolio of assets. Also, a term describing the marketability of a money market security correlating to the narrowness of the spread between the bid and ask prices.

Local Government Investment Pool (LGIP): An investment by local governments in which their money is pooled as a method for managing local funds, (i.e., Florida PRIME).

Long-Term Core Investment Program: Funds that are not needed within a one-year period.

Market Value: The fair market value of a security or commodity. The price at which a willing buyer would pay for a security.

Mark-to-market: Adjusting the value of an asset to its market value, reflecting in the process unrealized gains or losses.

Master Repurchase Agreement: A widely accepted standard agreement form published by the Bond Market Association (BMA) that is used to govern and document Repurchase Agreements and protect the interest of parties in a repo transaction.

Maturity Date: Date on which principal payment of a financial obligation is to be paid.

Medium Term Notes (MTNs): Used frequently to refer to corporate notes of medium maturity (5-years and under). Technically, any debt security issued by a corporate or depository institution with maturities from 1 to 10 years and issued under an MTN shelf registration. Usually issued in smaller issues with varying coupons and maturities and underwritten by a variety of broker/dealers (as opposed to large corporate deals issued and underwritten all at once in large size and with a fixed coupon and maturity).

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptance, etc.) are issued and traded.

Money Market Mutual Fund (MMF): A type of mutual fund that invests solely in money market instruments, such as Treasury bills, commercial paper, bankers' acceptances, and repurchase agreements. Money market mutual funds are registered with the SEC under the Investment Company Act of 1940 and are subject "rule 2a-7" which significantly limits average maturity and credit quality of holdings. MMFs are managed to maintain a stable net asset value (NAV) of $1.00. Many MMFs carry ratings by a NRSRO.

Moody's Investors Service: One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Mortgage Backed Securities (MBS): Mortgage-backed securities represent an ownership interest in a pool of mortgage loans made by financial institutions, such as savings and loans, commercial banks, or mortgage companies, to finance the borrower's purchase of a home or other real estate. The majority of MBS are issued and/or guaranteed by GNMA, FNMA and FHLMC. There are a variety of MBS structures, some of which can be very risky and complicated. All MBS have reinvestment risk as actual principal and interest payments are dependent on the payment of the underlying mortgages which can be prepaid by mortgage holders to refinance and lower rates or simply because the underlying property was sold.

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

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

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

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

Negotiable Certificate of Deposit (Negotiable CD): Large denomination CDs ($100,000 and larger) that are issued in bearer form and can be traded in the secondary market.

Net Asset Value: The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.)

[(Total assets) - (Liabilities)]/ (Number of shares outstanding)

Nationally Recognized Statistical Rating Organization (NRSRO): A designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating. Includes Moody's, S&P, Fitch and Duff & Phelps.

Offered Price: See also "Ask Price."

Open Market Operations: Federal Reserve monetary policy tactic entailing the purchase or sale of government securities in the open market by the Federal Reserve System from and to primary dealers in order to influence the money supply, credit conditions, and interest rates.

Par Value: Face value stated value or maturity value of a security.

Physical Delivery: Delivery of readily available underlying assets at contract maturity.

Portfolio: Collection of securities and investments held by an investor.

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

Primary Dealer: Any of a group of designated government securities dealers designated by to the Federal Reserve Bank of New York. Primary dealers can buy and sell government securities directly with the Fed. Primary dealers also submit daily reports of market activity and security positions held to the Fed and are subject to its informal oversight. Primary dealers are considered the largest players in the U.S. Treasury securities market.

Prime Paper: Commercial paper of high quality. Highest rated paper is A-1+/A-1 by S&P and P-1 by Moody's.

Principal: Face value of a financial instrument on which interest accrues. May be less than par value if some principal has been repaid or retired. For a transaction, principal is par value times price and includes any premium or discount.

Prudent Investor Standard: Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. More stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

Qualified Public Depository: Per Florida Statute 280, means any bank, saving bank or savings association that:

- Is organized and exists under the laws of the United States, the laws of this state or any other state or territory of the United States
- Has its principal place of business in this state or has a branch office in this state which is authorized under the laws of this state or of the United States to receive deposits in this State
- Has deposit insurance under the provision of the Federal Deposit Insurance Act, as amended, 12 U.S.C. ss.1811 seq
- Meets all requirements of F.S. 280
- Has been designed by the Treasurer as a qualified public depository

Range Note: A type of structured note that accrues interest daily at a set coupon rate that is tied to an index. Most range notes have two coupon levels; a higher accrual rate for the period the index is within a designated range, the lower accrual rate for the period that the index falls outside the designated range. This lower rate may be zero and may result in zero earnings.

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

Realized Gains (Losses): The difference between the sale price of an investment and its book value. Gains/losses are "realized" when the security is actual sold, as compared to "unrealized" gains/losses which are based on current market value. See "Unrealized Gains (Losses)."

Reference Bills: FHLMC's short-term debt program created to supplement its existing discount note program by offering issues from one month through one year, auctioned on a weekly or on an alternating four-week basis (depending upon maturity) offered in sizeable volumes ($1 billion and up) on a cycle of regular, standardized issuance. Globally sponsored and distributed, Reference Bill issues are intended to encourage active trading and market-making and facilitate the development of a term repo market. The program was designed to offer predictable supply, pricing transparency and liquidity, thereby providing alternatives to Treasury bills. FHLMC's Reference Bills are unsecured general corporate obligations. This program supplements the corporation's existing discount note program. Issues under the Reference program constitute the same credit standing as other FHLMC discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

Reference Notes: FHLMC's intermediate-term debt program with issuances of 2, 3, 5, 10 and 30-year maturities. Initial issuances range from $2 - $6 billion with reopenings ranging $1 - $4 billion. The notes are high-quality bullet structures securities that pay interest semiannually. Issues under the Reference program constitute the same credit standing as other FHLMC notes; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Repurchase Agreement (Repo): A short-term investment vehicle where an investor agrees to buy securities from a counterparty and simultaneously agrees to resell the securities back to the counterparty at an agreed upon time and for an agreed upon price. The difference between the purchase price and the sale price represents interest earned on the agreement. In effect, it represents a collateralized loan to the investor, where the securities are the collateral. Can be DVP, where securities are delivered to the investor's custodial bank, or "tri-party" where the securities are delivered to a third-party intermediary. Any type of security can be used as "collateral," but only some types provide the investor with special bankruptcy protection under the law. Repos should be undertaken only when an appropriate BMA approved master repurchase agreement is in place.

Reverse Repurchase Agreement (Reverse Repo): A repo from the point of view of the original seller of securities. Used by dealers to finance their inventory of securities by essentially borrowing at short-term rates. Can also be used to leverage a portfolio and in this sense, can be considered risky if used improperly.

S&P Rated GIP All Index 30-Day Gross of Fees Yield: The United States S&P Rated GIP Indices are performance indicators of rated government investment pools that maintain a stable net asset value of $1.00 per share. The All Index includes only AAA and AA rated government investment pools.

Safekeeping: Service offered for a fee, usually by financial institutions, for the holding of securities and other valuables. Safekeeping is a component of custody services.

Secondary Market: Markets for the purchase and sale of any previously issued financial instrument.

Securities Lending: An arrangement between and investor and a custody bank that allows the custody bank to "loan" the investors investment holdings, reinvest the proceeds in permitted investments, and shares any profits with the investor. Should be governed by a securities lending agreement. Can increase the risk of a portfolio in that the investor takes on the default risk on the reinvestment at the discretion of the custodian.

Sinking Fund: A separate accumulation of cash or investments (including earnings on investments) in a fund in accordance with the terms of a trust agreement or indenture, funded by periodic deposits by the issuer (or other entity responsible for debt service), for the purpose of assuring timely availability of moneys for payment of debt service. Usually used in connection with term bonds.

Spread: The difference between the price of a security and similar maturity Treasury investments, expressed in percentage terms or basis points. A spread can also be the absolute difference in yield between two securities. The securities can be in different markets or within the same securities market between different credits, sectors, or other relevant factors.

Standard & Poor's: One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Separate Trading of Registered Interest and Principal of Securities (STRIPS): Acronym applied to Treasury securities that have had their coupons and principal repayments separated into individual zero-coupon Treasury securities. The same technique and "strips" description can be applied to non-Treasury securities (e.g. FNMA strips).

Structured Notes: Notes that have imbedded into their structure options such as step-up coupons or derivative-based returns.

Swap: Trading one asset for another.

TAP Notes: Federal Agency notes issued under the FHLB TAP program. Launched in 6/99 as a refinement to the FHLB bullet bond auction process. In a break from the FHLB's traditional practice of bringing numerous small issues to market with similar maturities, the TAP Issue Program uses the four most common maturities and reopens them up regularly through a competitive auction. These maturities (2, 3, 5 and 10 year) will remain open for the calendar quarter, after which they will be closed and a new series of TAP issues will be opened to replace them. This reduces the number of separate bullet bonds issued but generates enhanced awareness and liquidity in the marketplace through increased issue size and secondary market volume.

Tennessee Valley Authority (TVA): A wholly owned corporation of the United States government that was established in 1933 to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. Power operations are separated from non-power operations. TVA securities represent obligations of TVA, payable solely from TVA's net power proceeds, and are neither obligations of nor guaranteed by the United States. TVA is currently authorized to issue debt up to $30 billion. Under this authorization, TVA may also obtain advances from the Treasury of up to $150 million. Frequent issuer of discount notes, agency notes and callable agency securities.

Total Return: Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

Treasuries: Collective term used to describe debt instruments backed by the U.S. Government and issued through the U.S. Department of the Treasury. Includes Treasury bills, Treasury notes, Treasury Inflation-Protected Securities (TIPS) and Treasury bonds. Also a benchmark term used as a basis by which the yields of non-Treasury securities are compared (e.g., "trading at 50 basis points over Treasuries").

Treasury Bills (T-Bills): Short-term direct obligations of the United States Government issued with an original term of one year or less. Treasury bills, or T-bills, are sold in terms ranging from a few days to 52 weeks. Bills are typically sold at a discount from the par amount (also called face value). For instance, you might pay $990 for a $1,000 bill. When the bill matures, you would be paid $1,000. The difference between the purchase price and face value is interest. It is possible for a bill auction to result in a price equal to par, which means that Treasury will issue and redeem the securities at par value.

Treasury Bonds: Long-term interest-bearing debt securities backed by the U.S. Government. issued Treasury bonds pay a fixed rate of interest every six months until they mature and are issued in a term of 30 years.

Treasury Inflation-Protected Securities (TIPS): Provide protection against inflation. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Consumer Price Index.

When a TIPS matures, you are paid the adjusted principal or original principal, whichever is greater. TIPS pay interest twice a year, at a fixed rate. The rate is applied to the adjusted principal; so, like the principal, interest payments rise with inflation and fall with deflation.

Treasury Notes: Intermediate interest-bearing debt securities backed by the U.S. Government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury. Treasury Notes earn a fixed rate of interest every six months until maturity. Notes are issued in terms of 2, 3, 5, 7, and 10years.

Trustee: A bank designated by an issuer of securities as the custodian of funds and official representative of bondholders. Trustees are appointed to ensure compliance with the bond documents and to represent bondholders in enforcing their contract with the issuer.

Uniform Net Capital Rule: SEC regulation 15C3-1 that outlines the minimum net capital ratio (ratio of indebtedness to net liquid capital) of member firms and non-member broker/dealers.

Unrealized Gains (Losses): The difference between the market value of an investment and its book value. Gains/losses are "realized" when the security is actual sold, as compared to "unrealized" gains/losses which are based on current market value. See also "Realized Gains (Losses)."

Variable-Rate Security: A bond that bears interest at a rate that varies over time based on a specified schedule of adjustment (e.g., daily, weekly, monthly, semi-annually or annually). See also "Floating Rate Note."

Weighted Average Maturity Average Maturity: The average maturity of all securities and investments of a portfolio, determined by multiplying the par or principal value of each security or investment by its maturity (days or years), summing the products, and dividing the sum by the total principal value of the portfolio. A simple measure of risk of a fixed-income portfolio.

Weighted Average Maturity to Call: The average maturity of all securities and investments of a portfolio, adjusted to substitute the first call date per security for maturity date for those securities with call provisions.

Yield: There are numerous methods of yield determination. In this glossary, see also "Current Yield," "Yield Curve," "Yield to Call" and "Yield to Maturity."

Yield Curve: A graphic depiction of yields on like securities in relation to remaining maturities spread over a timeline. The traditional yield curve depicts yields on Treasuries, although yield curves exist for Federal Agencies and various credit quality corporates as well. Yield curves can be positively sloped (normal) where longer-term investments have higher yields, or "inverted" (uncommon) where longer-term investments have lower yields than shorter ones.

Yield to Call (YTC): Same as "Yield to Maturity," except the return is measured to the first call date rather than the maturity date. Yield to call and be significantly higher or lower than a security's yield to maturity.

Yield to Maturity (YTM): Calculated return on an investment, assuming all cash flows from the security are reinvested at the same original yield. Can be higher or lower than the coupon rate depending on market rates and whether the security was purchased at a premium or discount. There are different conventions for calculating YTM for various types of securities.

Revision History

Changes	Approval Manager	Dates
Initial Publication		