

VCDD #4

INVESTMENT

POLICIES

MANUAL

Revised November 2018

VCDD #4 INVESTMENT POLICIES

The purpose of these investment guidelines is to formalize the framework for the District's daily investment activities to include scope, objectives, authority, standards of prudence, authorized institutions, investment type, collateralization and diversification as required by Section 218.415, Florida Statutes.

1. SCOPE. – The authority to manage the District's investment program is derived from the State of Florida Statutes. The District Manager or designee is the investment officer. The District Manager or designee shall establish investment procedures consistent with this policy, and a system of control to regulate the activities of subordinate officials and employees.

This policy is limited in its application to funds that are not immediately needed and are available for investment. This investment policy shall not apply to the long term multi-asset class portfolio, or funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds.

These funds are accounted for in the District's annual financial audit and include:

- A. General Fund
- B. Capital Project Funds
- C. Debt Service Funds
- D. Enterprise Funds
- E. Special Revenue Funds
- F. Fiduciary Fund

This investment policy will be reviewed annually by the District board.

2. INVESTMENT OBJECTIVES. – The primary objectives, in order of priority, of all investment activities involving the financial assets of the District shall be the following:

- A. Safety of capital: Safety and preservation of principal in the overall portfolio is the foremost investment objective. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

- B. Liquidity of funds: Maintaining the necessary liquidity to match expected liabilities is the second investment objective.
- C. Investment income: Obtaining a reasonable return is the third investment objective.

3. PERFORMANCE MEASUREMENT. – The District Manager or designee will identify one or more benchmarks to monitor and evaluate the District’s investments against.

- A. A money market investment vehicle with a weighted average maturity (WAM) of 60 days or less is benchmarked against the S&P AAA/AA Rated GIP All 30-Day Gross Index.
- B. A fixed income investment vehicle that follows an enhanced cash strategy is benchmarked to the Merrill Lynch 1 Year U.S. Treasury Index.
- C. A fixed income investment vehicle that follows a 1-3 year strategy will be benchmarked against the Merrill Lynch 1-3 Year Government Index.
- D. A fixed income investment vehicle that follows a 1-5 year strategy is benchmarked against the Merrill Lynch 1-5 Year U.S. Treasury Index. Such funds shall not exceed 15% of the total portfolio.
- E. In order to calculate the overall return for the District’s various investment portfolios, there will be a dollar weighted calculation for both the portfolio and the benchmark.

The District Manager or designee shall discuss with the Investment Advisory Committee proposed benchmarks for new investments. These benchmarks will be approved by the District Board of Supervisors.

4. PRUDENCE AND ETHICAL STANDARDS. – Investment officers for the District, when investing or depositing public funds, shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a person acting in a like capacity and familiar with such matters would use to attain the objectives listed above (the “prudent person” standard). This standard requires that when making investment decisions, the investment officer shall consider the role that the investment or deposit plays within the portfolio of assets of the District and the investment objectives listed above, and shall be applied in the context of managing the overall investment portfolio.

Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Also, employees involved in the investment process shall disclose to the Board any material financial interests (as defined in the Form 1 disclosure filed annually with the State of Florida) in financial institutions that

conduct business with the board, and they shall further disclose any material financial/investment positions that could be related to the performance of the Board's portfolio.

5. LISTING OF AUTHORIZED INVESTMENTS – Following is a list of authorized investments:

- A. Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Inter-local Cooperation Act as provided in Section 163.01, Florida Statutes.
- B. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- C. Interest-bearing time deposits or savings accounts in Qualified Public Depositories (QPD) as defined in Section 280.02, Florida Statutes.
- D. Direct obligations of the United States Treasury.
- E. Direct obligations of federal agencies and instrumentalities.
- F. Repurchase agreements with financial institutions approved as public depositors, provided that the underlying collateral consist of obligations of the United States Government, its agencies and instrumentalities. The repurchase agreement shall be collateralized at 102 percent of the value of the District's investment.
- G. Fixed income mutual funds, provided such funds are registered under the Investment Company Act of 1940, and provided that it does not expose the District to undue risk and follows the objectives of safety, liquidity, and yield. Such funds must also have an average effective duration not greater than five (5) years.

6. MATURITY AND LIQUIDITY REQUIREMENTS. – To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities .with a final maturity greater than 5.5 years from the time of purchase. Furthermore, the overall effective duration of the portfolio will not exceed 3 years.

7. PORTFOLIO COMPOSITION. – The District's guidelines for the composition of the portfolio will be determined by the need for safety, liquidity and investment income, in that order. An adequate amount of cash will be retained in a qualified public depository as defined in Section 280.02, Florida Statutes, to cover the day-to-day cash needs of the District. In an effort to safely provide a higher yield, a portion of any excess funds will be deposited in a Local Government Investment Pool as provided in paragraph 5A above, with overnight liquidity access, to cover any unexpected cash needs. Additional funds the District Manager or designee determines may be

available for a longer period investment, typically providing a higher yield, but less liquidity, will be made as appropriate. The District Manager or designee will obtain advice from the Investment Advisory Committee on the District's investment strategy. New investment entities will be approved by the Board of Supervisors.

8. RISK AND DIVERSIFICATION. – It is the policy of the District to diversify its investment portfolio, if necessary to eliminate risk of loss and to balance the effect of interest rate changes affecting different types of securities. Investments may be diversified by:

- A. Limiting investments to avoid over-concentration in securities from a specific issuer or business sector;
- B. Limiting investments in securities with higher credit risks;
- C. Investing in securities with varying maturities; and
- D. Continuously investing a portion of the portfolio in readily available funds, such as a Local Government Investment Pool (LGIP), money market funds, or a Qualified Public Depository to ensure that appropriate liquidity is maintained to meet ongoing obligations.

9. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS. – District Management shall recommend and the Board of Supervisors shall approve a list of financial institutions authorized to be public depositories and/or provide investment services.

10. THIRD-PARTY CUSTODIAL AGREEMENTS. – The District will seek to protect its interests in all securities purchased by the District via appropriate insurance coverage by broker/dealers or via the use of a third party custodian approved by the District Manager or designee and evidenced by safekeeping receipts.

11. MASTER PURCHASE AGREEMENT. – When dealing with repurchase agreement transactions, the District Manager or designee will require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.

12. BID REQUIREMENT. – When applicable, staff will determine the appropriate maturity date based on cash-flow needs and market conditions, analyze and select one or more optimal types of investment, and competitively

bid the security in question when feasible and appropriate. Except as otherwise required by law, the bid deemed to best meet the investment objectives specified in subsection (2) must be selected.

13. INTERNAL CONTROLS – The District Manager or designee shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss 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 or District board members.

14. CONTINUING EDUCATION. – The District Manager or designee and appropriate Authorized Staff shall annually complete a minimum of eight (8) hours of continuing education in subjects or courses of study related to investment practices and products.

15. REPORTING. – The District Manager or designee shall submit a quarterly investment status report to the District’s Board of Supervisors. The report shall summarize investment transactions that occurred during the reporting period, and shall discuss the current portfolio in terms of maturity, rates of return and other features.

16. AUTHORIZED INVESTMENTS; WRITTEN INVESTMENT POLICIES. – The investment of District funds shall be in accordance with Section 218.415, Florida Statutes, and as amended. Having adopted a written investment policy as provided in subsections (1) – (15), the District may by resolution invest and reinvest any surplus public funds in their control or possession in the items as discussed in paragraph 5 above:

In addition, the District has further limited investments as follows:

A. Repurchase Agreements

District funds may be invested in repurchase agreements with financial institutions approved as public depositories, provided that the underlying collateral consist of obligations of the United States Government, its agencies and instrumentalities and the District takes delivery of the collateral either directly or through an authorized custodian. The District shall be informed of the specific collateral and investments in repurchase agreements shall be collateralized equal to at least 102% of the value of the District’s investment.

B. Prohibited Investments

In addition to the limitations on investment types according to Florida Statutes, District funds will not be invested in derivative type investments such as collateralized mortgage obligations, strips, floaters, hedge or swap agreements, and securities lending. Certain types of such investments may qualify under state statute but are not deemed appropriate for use by the District.

17. SECURITIES; DISPOSITION. – The District will seek to protect its interests in all securities purchased by the District via appropriate insurance coverage by broker/dealers or via the use of a third party custodian approved by the District Manager or designee and evidenced by safekeeping receipts.

18. SALE OF SECURITIES. – When the invested funds are needed in whole or in part for the purposes originally intended or for more optimal investments, the District Manager or designee may sell such investments at the then-prevailing market price and place the proceeds into the proper account or fund of the unit of local government.

19. AUDITS. – As part of the District’s annual, external, independent audit, the auditors shall report, as part of the audit, whether or not the unit of local government has complied with this policy.