

Regular Workshop – December 12, 2016  
Agenda Item 12

Agenda Item: Proposed Resolution 2017-03, Banking Resolution, Authorizing Investment of Town's Surplus in Local Government Investment Pool (LGIP) - PRIME and FLCASS

Presenter: Town Manager, Susan L Smith, Finance Director, and Mel Hamilton, Chandler Asset Management

Summary: Due to rising interest rates, the Town's Finance Director feels it is in the best interest of the Town to invest some of its legally available surplus funds in a public investment pool, consistent with Chapter 218.405, Florida Statutes.

Chandler Asset Management, the Town's Investment Advisor, requested proposals on behalf of the Town, to the various LGIPs available in the State of Florida.

Based on those results and the recommendation of the Investment Advisor, the Finance Committee approved both Florida PRIME and FLCASS as approved investments. Mel Hamilton of Chandler Asset Management will be available to discuss the recommendation.

Staff has prepared Resolution 2017-03 to provide for the required Authorizing Resolution to comply with Florida Statutes.

Attachments: 11-28-16 Memo, Finance Director to Manager;  
Proposed Resolution 2017-03.

Recommended

Action: Pending discussion, provide direction to Manager.

# MEMORANDUM

Date: November 28, 2016

**TO:** Dave Bullock, Town Manager  
**FROM:** Susan L Smith, Finance Director  
**SUBJECT:** Proposed Resolution 2017-03, Banking Resolution, Authorizing Investment of Town's Surplus in Local Government Investment Pool (LGIP) - PRIME and FLCASS

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In February 2016, I began discussions with the Investment Advisory Committee on optional investments such as Local Government Investment Pools (LGIPs) to invest surplus funds instead of floating funds in Bank of America to cover banking service fees.

The Town was carrying an average daily balance of \$13-\$15 million in Bank of America at an earning credit rating of 25 basis points to cover the cost of banking fees. Due to rising interest rates, I feel it is in the best interest of the Town to invest some of its legally available surplus funds in a public investment pool, consistent with Chapter 218.405, Florida Statutes, which is paying a better rate of return and pay the banking fees outright.

On September 19, 2016, Chandler Asset Management, the Town's Investment Advisor, requested proposals on behalf of the Town, to the various LGIPs available in the State of Florida. Responses were received as follows:

<b>LGIP</b>	<b>Total Assets Held</b>	<b>Yield Net of Expenses</b>	<b>Total Expense</b>	<b>Administrator</b>
Florida Prime	\$7.25 Billion	.78%	.0326%	SBA
Florida CLASS	\$665 Million	.78%	.10%	Public Trust Advisors
FEIT Fund	\$418 Million	.66%	.24%	PFM Asset Mgmt
Florida FIT CP Pool	\$246 Million	.74%	.23%	Wertz York
Florida Surplus Assets Trust	\$189 Million	.55%	.20%	FL Mgmt & Admin Svc

Based on these results and the recommendation of the Investment Advisor, the Investment Advisory Committee, at their November 4, 2016 meeting, approved both Florida PRIME and FLCASS as recommended investment alternatives.

Current yields and investment strategies are comparable and both funds are large enough to offer diversification among participants. Both firms have external oversight provided by appointed Boards or Advisory committees consisting of public officials.

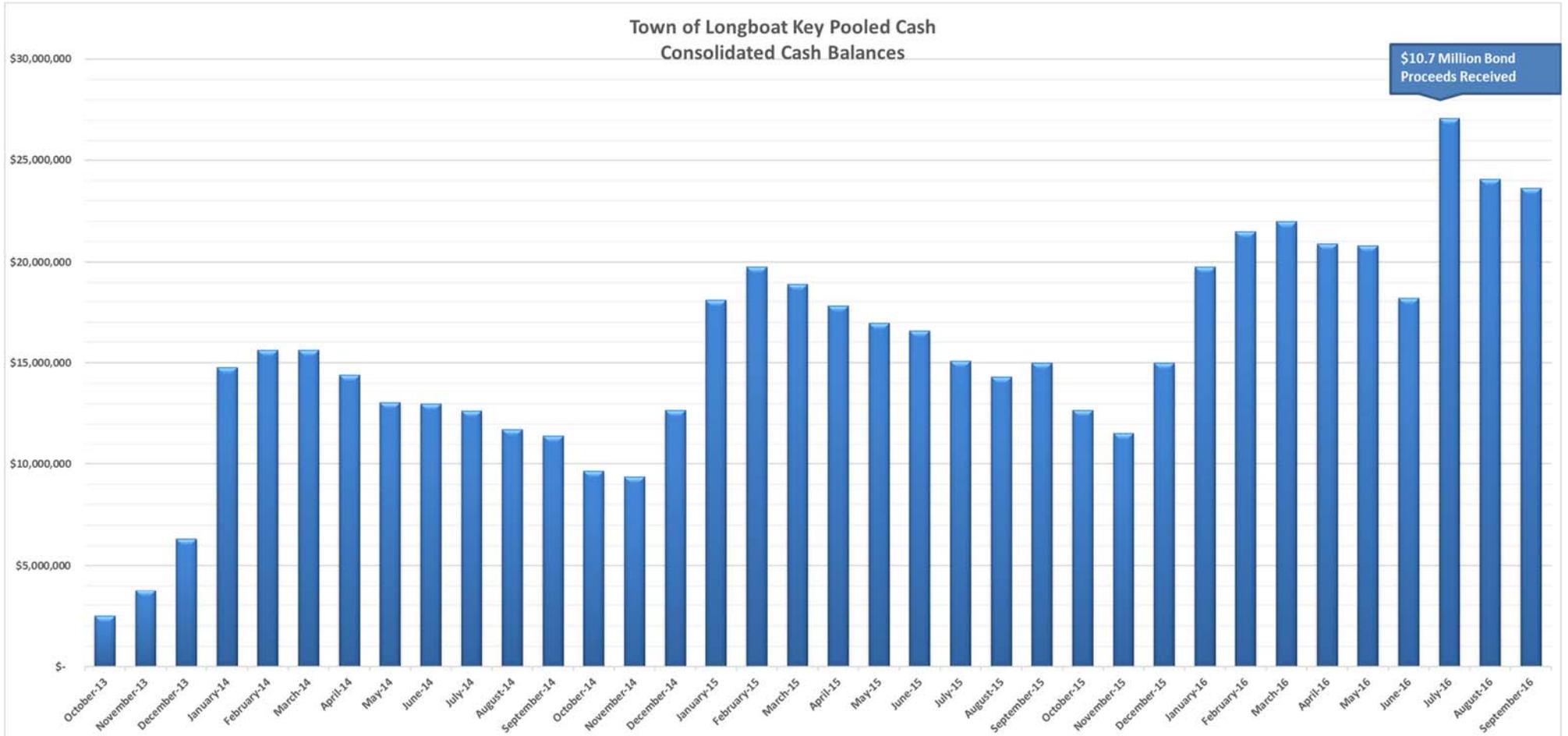
Florida PRIME and Intergovernmental Investment Pools are already allowable investments listed in the Town's investment policy. The Finance Department is only looking to open one account at this time, that being Florida PRIME. We are also in the process of issuing an RFP for banking services, which may produce more favorable banking service fees and Earnings Credit Ratings.

In order to open an account, an Authorizing Resolution for participation, which designates the authorized representative of the Town, must be submitted by the governing body along with a Participant Account Maintenance Form signed by the authorized representation named in the Authorizing Resolution. Proposed Resolution 2017-03, serves as the Authorizing Resolution and is presented at the December 12, 2016 Regular Workshop Meeting for Commission consideration.

Further Information related to Florida PRIME can be found on their website at <https://www.sbafla.com/prime>. Please see cash flow analysis attached.

## Cash Flow Analysis

As shown below, the Town's surplus cash peaks in February and March each year when tax collections are at their highest and then steadily declines and bottoms out in November. The Town's fund balance has also grown based on favorable results from operating budgets over the past several years. Based on cash flow needs, I don't expect cash balances below \$17 million in FY2017. An additional \$10 million can comfortably be turned over to Chandler Asset Management for longer term investing and the remaining can be transferred into Florida PRIME, which can be liquidated immediately when the cash is needed.







**Authorizing Resolution  
For Participation in the Local Government Surplus Funds Trust Fund  
(Florida PRIME)**

**RESOLUTION 2017-03 - TOWN OF LONGBOAT KEY**

**WHEREAS,** the Town of Longboat Key (“Participant”) is (check one or more, as applicable)

a governmental entity within the State of Florida not part of state government, including, without limitation, the following and the officers thereof: any county, municipality, school district, special district, clerk of circuit court, sheriff, property appraiser, tax collector, supervisor of elections, authority, board, public corporation, or any other political subdivision of the State of Florida, as described in Section 218.403(11), Florida Statutes and as authorized by Sections 218.407 and 215.44 (1) Florida Statutes;

a state agency as described in Section 216.011, Florida Statutes, as authorized by Section 215.44(1), Florida Statutes;

a Board of Trustees of a state university or college, as authorized by Section 215.44(1), Florida Statutes; or

a direct support organization of any of the foregoing, as authorized by Section 215.44(1), Florida Statutes.

and is empowered to delegate to the State Board of Administration of Florida the authority to invest legally available funds in the Local Government Surplus Funds Trust Fund (Florida PRIME) and to act as custodian of investments purchased with such investment funds; and

**WHEREAS,** it is in the best interest of the Participant to invest its legally available funds in investments that provide for safety, liquidity, and competitive returns with minimization of risks consistent with Chapter 218.405, Florida Statutes; and

**WHEREAS,** the Florida Local Government Surplus Funds Trust Fund (Florida PRIME), a public funds investment pool, was created on behalf of entities whose investment objectives, in order of priority are safety, liquidity, and competitive returns, consistent with the Chapter 218.405, Florida Statutes.

**NOW THEREFORE,** be it resolved as follows:

A. That Participant approves this Authorizing Resolution and hereby requests the establishment of an account in its name in Florida PRIME, for the purpose of transmitting funds that the Participant has determined to be legally available for investment in Florida PRIME.

B. That the individual, whose title is Town Manager, is an authorized representative of the Participant and is hereby authorized to transmit funds for investment in Florida





**Disclosure Statement**  
**For Participation in the Local Government Surplus Funds Trust Fund (Florida PRIME)**

This Disclosure Statement (the "Statement") is made and entered into by and between the State Board of Administration of Florida (the "SBA") and Town of Longboat Key (the "Participant").

**WHEREAS**, Chapter 218.405, Florida Statutes, creates a public funds investment pool to which any local government of the State of Florida may delegate, by Authorizing Resolution, the authority to hold legal title as custodian and to make investments purchased with local surplus funds;

**WHEREAS**, the SBA is authorized pursuant to Chapter 218.409, Florida Statutes to receive, transfer, and disburse surplus money and securities belonging to "units of local governments" of the state (as defined herein);

**WHEREAS**, the Local Government Surplus Funds Trust Fund (Florida PRIME) is a public funds investment pool, which funds are invested in certain eligible investments as more fully described in the enrollment materials;

**WHEREAS**, the SBA is authorized pursuant to Section 215.44, Florida Statutes to invest the funds of state agencies, state universities and colleges and direct support organizations of any of the foregoing in Florida PRIME;

**WHEREAS**, the Participant has determined that it is authorized to invest in Florida PRIME created under the Florida Statutes and has adopted the required Authorizing Resolution to permit the SBA to invest and reinvest funds of the Participant in Florida PRIME;

**WHEREAS**, the Participant acknowledges that the SBA is not responsible for independently verifying the Participant's authority to invest under the statutes;

**WHEREAS**, the Participant acknowledges that the performance of Florida PRIME is not guaranteed by the State of Florida, the SBA or any other governmental entities; and

**NOW THEREFORE**, for and in consideration of the mutual promises, covenants and agreements herein contained, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree with each other as follows:

**The Disclosure Statement.** The Participant must execute this Disclosure Statement, an Authorizing Resolution and a completed Participant Account Maintenance Form designating person(s) to serve as Authorized Representatives of the Participant before depositing any funds into Florida PRIME.

**Acknowledgement of Disclosure.** The following signatory is a duly appointed, acting, and qualified officer of the Participant, who, in the capacity set forth above is authorized to execute this Statement. Further the Participant hereby acknowledges receipt and review of these enrollment materials which includes the New Participant Enrollment Guide, Authorizing Resolution, this Disclosure Statement, Florida PRIME Investment Policy Statement, applicable Rules, and other historical financial information also posted on the Florida PRIME website. At the SBA's discretion, modifications to these documents may be posted on the Florida PRIME website. The Participant will have up to 45 days to withdraw their funds from the Florida PRIME or the modifications will be deemed accepted by the Participant.

**Town of Longboat Key**

PARTICIPANT NAME: \_\_\_\_\_

DATE: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

**Town Manager**

TITLE: \_\_\_\_\_

Dave Bullock \_\_\_\_\_

**dbullock@longboatkey.org**

PRINTED NAME: \_\_\_\_\_

EMAIL: \_\_\_\_\_



## INFORMATION STATEMENT & OPERATING PROCEDURES

### I. ORGANIZATION & STRUCTURE

The Local Government Surplus Funds Trust Fund (Florida PRIME) is governed by Chapters 215 and 218, Florida Statutes, and Chapter 19-7 of the Florida Administrative Code (collectively, “Applicable Florida Law”). The Florida PRIME has been organized in conformity with Chapter 218.40, et seq., Florida Statutes (the “Act”), which provides for the creation of the Florida PRIME investment pool. Under the Act, a Unit of Local Government (which is defined in the Act as any governmental entity within the State of Florida, not part of state government, including, without limitation, the following and the officers thereof: any county, municipality, school district, special district, clerk of the court, sheriff, property appraiser, tax collector, supervisor of elections, authority, board, public corporation, or any other political subdivision of the state) is permitted to jointly invest its surplus funds in the Florida PRIME and certain other authorized investments. In addition, the State Board of Administration (“SBA”) may invest any funds of state agencies, state universities or colleges, and any of their direct support organizations (collectively with eligible local governments, “PRIME Participants”) in the Florida PRIME.

The SBA is comprised of the Governor, Chief Financial Officer, and the Attorney General of the State of Florida (the “Trustees”). The Trustees have delegated the administrative and investment authority to manage the Florida PRIME to the Executive Director of the SBA, subject to Applicable Florida Law. The Trustees appoint a nine-member Investment Advisory Council and a six member Florida PRIME Advisory Council. Both Councils are responsible for review of the Florida PRIME Investment Policy and any proposed changes prior to its presentation to the Trustees and will undertake other duties set forth in Applicable Florida Law.

The SBA has retained the services of Federated Investors as the investment manager for the Florida PRIME. The SBA has engaged BNY Mellon to provide asset safekeeping, custody services, and performance measurement services for the Florida PRIME. The SBA maintains oversight of the services provided to Florida PRIME by Federated and BNY Mellon through periodic assessments and contractual performance monitoring.

### II. Florida PRIME DISCLOSURE ITEMS

Section 218.407 Florida Statutes requires that, prior to a unit of local government investing funds in the Florida PRIME, the SBA provide an educational information packet to the local government investment officer or other authorized representative of the unit of local government. The SBA will also provide this information to other PRIME Participants prior to investing their funds in Florida PRIME and will make this information available on the Florida PRIME website, <https://www.sbafla.com/prime>. This section provides the specific educational information items required by Section 218.407 of the Florida Statutes.

#### 1. Investment Policy Statement:

The investment policy and composition guidelines for Florida PRIME are included in the Florida PRIME Investment Policy Statement. Although the Florida Statutes 215.44-215.47 permit investment in a variety of investment types, the investment of the Florida PRIME portfolio is restricted to the terms of the Florida PRIME Investment Policy Statement. The Florida PRIME Investment Policy Statement is appended to the Information Statement & Operating Procedures document following page 8, and updates to the statement will be made available on the Florida PRIME website.

**2. All rights and conditions of participation, including potential restrictions on withdrawals:**

Upon the occurrence of an event that has a material impact on liquidity or operations of the Florida PRIME, the Executive Director may limit contributions to or withdrawals from the Florida PRIME for 48 hours, to ensure that the SBA can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action shall be immediately disclosed to all PRIME Participants, the Trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council through direct notification and posting an announcement of the action on the Florida PRIME website. The Trustees shall convene an emergency meeting, as soon as practicable from the time the Executive Director has instituted such measures, and review the necessity of those measures. The Trustees may vote to continue the measures for up to an additional 15 days. The Trustees must convene and vote to continue any such measures prior to the expiration of the time limit set, but in no case may the time limit set by the Trustees exceed 15 days.

**3. The historical performance, investment holdings, credit quality, and average maturity of the trust fund investments:**

The Florida PRIME performance history including rates of return, investment holdings, credit quality in summary form, and average maturity is provided on a monthly basis on the Florida PRIME website. Also, most of this information is presented in our Florida PRIME Monthly Summary Report which is posted to the website.

**4. A copy of Rule 19-7, Florida Administrative Code.**

A copy of the current Rule is posted on the Florida PRIME website.

**5. The rate determination process for any deposit or withdrawal:**

The rate of return methodology is addressed in Chapter 19-7 of the Florida Administrative Code.

**6. Fees, charges, penalties, and deductions that apply to each PRIME Participant account:**

The Florida PRIME fees are established on an annual basis. As of January, 2015, the fee is approximately 3.0 basis points (or 0.03 percent) annually. Fees are charged monthly, and, where necessary, include monthly estimates of periodic costs. A breakdown of the monthly fees is posted on the Florida PRIME website. The Florida PRIME fee is allocated to PRIME Participants based on their average daily balance as a percentage of the Florida PRIME average daily balance. The monthly fee represents the investment manager fee, the bank custody and performance fee, the bank treasury fee, the Standard & Poor's annual rating fee, and the SBA's administrative service charge. On an annual basis, the SBA will "true-up" the estimated expenses posted monthly to the actual expenses incurred on behalf of the Florida PRIME.

Chapter 218.409(3), Florida Statutes authorizes the SBA to fund the Florida PRIME reserve by imposing a charge as a portion of the management fee. When appropriate, the SBA will determine the level at which to fund the reserve. Notification of this charge will be sent to PRIME Participants.

**7. The most recently published financial statements or independent audits, if available, prepared under generally accepted accounting principles:**

Section 218.409(9), Florida Statutes requires the Auditor General of Florida to conduct a financial audit of the Florida PRIME on an annual basis. Once this audit is concluded, their audit report and the accompanying financial statements will become part of the enrollment materials and will be posted on the Florida PRIME website.

**8. A Disclosure Statement for signature by an authorized officer of a Florida PRIME Participant:**

The Disclosure Statement is included in the enrollment materials and on the Florida PRIME website. The Disclosure Statement must be signed and sent to SBA Participant Services prior to the PRIME Participant enrolling in the Florida PRIME.

**9. Disclosure of the participant accounting system and the pooled investment earnings allocation methodology:**

The SBA maintains PRIME Participant accounts on an internally managed accounting system. Current PRIME Participant balances, deposit and withdrawal transactions, interest earnings, and fees charged are maintained on this system. A monthly statement is prepared for each PRIME Participant account which includes activity occurring in the account for the month.

### **III. UNDERSTANDING PRINCIPAL RISKS ASSOCIATED WITH INVESTING IN THE Florida PRIME**

An investment in the Florida PRIME is subject to certain risks. Any PRIME Participant should specifically consider, among other things, the following principal risks before making a decision to purchase shares of the Florida PRIME. Please see the attached Florida PRIME Investment Policy Statement for more information related to risks. There is no secondary source of payment for the Florida PRIME, such as insurance or guarantees by the SBA or the State of Florida.

#### **1. Risk that the Florida PRIME will not maintain a Stable Net Asset Value:**

Although the investment manager attempts to manage the Florida PRIME such that it maintains a stable NAV of \$1.00 per share, there is no guarantee that it will be able to do so. The Florida PRIME is not registered under the Investment Company Act of 1940 or regulated by the Securities and Exchange Commission.

#### **2. Interest Rate Risks:**

The prices of the fixed income securities in which the Florida PRIME will invest rise and fall in response to changes in the interest rates paid by similar securities. Generally, when interest rates rise, prices of fixed income securities fall. However, market factors, such as demand for particular fixed income securities, may cause the price of certain fixed income securities to fall while the price of other securities rise or remain unchanged. Interest rate changes have a greater effect on the price of fixed income securities with longer maturities. The investment manager will seek to manage this risk by purchasing short-term securities.

#### **3. Credit Risks:**

Credit risk is the possibility that an issuer of a fixed income security held by the Florida PRIME will default on the security by failing to pay interest or principal when due. If an issuer defaults, the Florida PRIME will lose money. The investment manager of the Florida PRIME will seek to manage this risk by purchasing high quality securities.

### **IV. Florida PRIME ENROLLMENT PROCEDURES**

In order for an eligible Florida PRIME Participant to initiate enrollment in the Florida PRIME, the following documents should be completed and submitted to SBA Participant Services: All forms can be accessed through the Florida PRIME website at <https://www.sbafla.com/prime>.

1. An Authorizing Resolution for participation designating the authorized representative of the eligible PRIME Participant must be submitted to by PRIME Participant's governing body or agency head (or other authorized body or person). If the eligible PRIME Participant has a governing body, the Authorizing Resolution must be approved by that governing body.
2. A signed acceptance of the Disclosure Statement by the authorized representative named in the Authorizing Resolution.

Note: Upon receipt and acceptance of these 2 documents a Participant Account Maintenance Form will be provided to the Florida PRIME Participant.

3. Completion of a Participant Account Maintenance Form signed by the authorized representative named in the Authorizing Resolution.

### **V. ADMINISTRATION OF Florida PRIME**

By executing the Authorizing Resolution, the Participant Account Maintenance Form, and the acceptance of the Disclosure Statement, the PRIME Participant has delegated the authority to the State Board of Administration, to make investments purchased

with the PRIME Participant's funds deposited in Florida PRIME. These documents permit the SBA to enter into an agreement with a third party investment manager to perform its obligations and services with the provision that the Florida PRIME be managed according to the requirements of Sections 218.40 to 218.412, Florida Statutes and the Florida PRIME Investment Policy Statement.

**1. Investment Management:**

The Florida PRIME investment manager has been delegated the authority to manage Florida PRIME with discretion in accordance with the Florida PRIME Investment Policy Statement.

**2. Ratings:**

Florida PRIME will maintain an AAAM or equivalent rating from at least one Nationally Recognized Statistical Rating Organization (NRSRO). Florida PRIME is currently rated AAAM by Standard and Poor's. An explanation of the significance of such rating may be obtained by visiting the Florida PRIME website.

**3. Calculation of Yields and Net Asset Value:**

Florida PRIME's daily interest rate will be determined by dividing the net interest income for that day by the total investable balance of the Florida PRIME for that day. Interest income accrued during the month is credited to each PRIME Participant's account at the end of the month and is reinvested unless the PRIME Participant provides for its withdrawal or transfer.

**4. Valuation of Florida PRIME Units:**

All investments are stated at amortized cost, which in most cases approximates the market value of the securities. The objective of the Florida PRIME is to maintain a stable \$1.00 net asset value; however, the \$1.00 net asset value is not guaranteed or insured by the State of Florida. All Florida PRIME securities will be priced daily to confirm the net asset value is within tolerance.

**5. Independent Auditor:**

The Florida PRIME is subject to annual review by the Office of the Auditor General consistent with Chapter 218.409(9), F.S. The Auditor General will conduct an annual audit of the Florida PRIME financial statements each year.

**6. Operating Procedures:**

Deposits may be made by wire transfer or automated clearinghouse (ACH) transfer according to established operating procedures. Withdrawals will be processed according to the participant's instructions by either wire transfer or ACH. The requirements for Florida PRIME deposits and withdrawals, deadlines, and other operating procedures are summarized under the section entitled "Summary of Operating Procedures" later in this document.

**7. Ethics and Conflicts of Interest:**

Officers and employees involved in the investment process, whether they are SBA staff or the investment manager staff, shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business on behalf of Florida PRIME. They shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the SBA.

The SBA has implemented a process whereby the investment manager must annually certify their compliance with the ethical standards stated above. Further, the investment manager is required to promptly make certain disclosures to the SBA, including any known circumstances or situations that may create an actual, potential or perceived conflict of interest related to the management of Florida PRIME.

The SBA has an affirmative duty to immediately disclose to Florida PRIME Participants any material impact to Florida PRIME. To ensure such disclosure, a system of internal controls shall be established by the SBA, which shall be documented in writing as part of the Florida PRIME Investment Policy Statement. 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 or officers of the SBA or the investment manager. The controls shall also include formal escalation reporting procedures to address material impacts to Florida PRIME that require reporting and action.

#### **8. Liability:**

The SBA's responsibilities under the participation in Florida PRIME are limited to the management and investment of Florida PRIME and the reporting requirements of Sections 218.40 to 218.412, Florida Statutes. The standard of prudence to be used by investment officials shall be the fiduciary standards as set forth in Section 215.47 (10) Florida Statutes, which shall be applied in the context of managing the overall portfolio. The investment managers acting in accordance with written procedures and the Florida PRIME Investment Policy Statement and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of the Florida PRIME Investment Policy Statement.

### **VI. AMENDMENT OF THESE DOCUMENTS**

The SBA shall notice the Florida PRIME Participant of any amendments to specific areas as identified in Sections 218.40 to 218.415, Florida Statutes, within the enrollment materials, within a reasonable time prior to the effective date of such amendment. The notice may take the form of a writing or notification of a posting to the Florida PRIME website. In the event the PRIME Participant elects not to ratify or accept the amendment, the PRIME Participant may withdraw their funds in accordance with the applicable Florida PRIME operating procedures provision addressing withdrawals. In the event the PRIME Participant fails to withdraw their account balances following a notice of amendment prior to the effective date of such amendment, the amendment shall be deemed accepted. This Information Statement and Operating Procedures document may be periodically revised from time to time as necessary for the efficient operation of the Florida PRIME investment service. Transactions subsequent to the effective date of a revision in this document should be conducted according to the revised procedure.

### **VII. SUMMARY OF OPERATING PROCEDURES**

Deposits and withdrawals to the Florida PRIME may be made by either wire transfer or ACH according to established operating procedures. Excerpts from the current operating procedures are provided below.

#### **1. Florida PRIME Business Day:**

SBA Participant Services operates from 7:30am EST to 4:30pm EST each business day. The Florida PRIME calendar of holidays is posted on the Florida PRIME website. Deposit and withdrawal transactions must be provided to the SBA Participant Services by 1:00pm EST each day. The Florida PRIME website is available from 2:00pm EST until 1:00pm EST the next day. Transactions can be entered during this time period.

#### **2. Account Maintenance:**

##### **A) Authorized Signature Requirements:**

Initially, the authorized representative named in the Authorizing Resolution may designate on the Participant Account Maintenance Form that either one or two signatures may be required to make account changes. The SBA will look to the most recently completed Participant Account Maintenance Form ("PAMF") to make this determination. The representatives named in the PAMF will be designated with the authority to make account changes established in the PAMF.

##### **B) Opening a New Account or Changing an Existing Account:**

Each Florida PRIME Participant may open an unlimited number of accounts. The following procedures should be followed to establish a new account:

- 1) Using PAMF, check the box entitled “New account” or “Change Existing Account” in the upper area of the form.
- 2) Check with your bank representative to verify the wire instructions for your account. Complete a separate PAMF for each new account or to execute changes to multiple accounts. NOTE: Only one set of Wire instructions can be designated for each account established in Florida PRIME.
- 3) Complete the form and have it signed by the authorized representative(s) identified on the most recently completed PAMF.
- 4) Return the notarized PAMF(s) with original signatures to SBA Participant Services.

### **3) Wire Transfers:**

Wire transfer withdrawal transactions will be executed on the same day as initiated. The Florida PRIME must be notified by 1:00pm (EST) for all wire transfer activity for the current business day. Notifications received after 1:00pm will be executed on the next business day. Outgoing wire transfers from Florida PRIME will be sent through the Federal Reserve System (FED) by close of the FED business day.

### **4) ACH withdrawals:**

ACH withdrawal transactions will be executed on the following business day. The Florida PRIME must be notified by 1:00pm (EST) for all ACH withdrawals for receipt of funds on the following day. Notifications received after 1:00pm will be recorded as initiated on the next business day. Outgoing ACH transfers from Florida PRIME will be sent through the Federal Reserve System (FED) by close of the FED business day.

### **5) Future dated transactions:**

Transactions can be entered with a future execution date. The deposit or withdrawal will be processed on the specified execution date according to times outlined in these procedures.

### **6) Methods of Notification to Florida PRIME of wire transfer activity:**

- a) Florida PRIME website online access system;
- b) Verbal notification to SBA Participant Services representative. The participant’s 4 Digit Verification Number must be provided at the point of call.

### **7) Reports:**

Monthly statements will be generated within the first five (5) business days of the succeeding month. The monthly statement will include a detailed listing of the balance in the PRIME Participant’s account as of the date of the statement; all account activity, including deposits and withdrawals; and monthly yield information. Participants may request copies of monthly statements via the Florida PRIME website for a period of up to one year from the request date.

### **8) Financial Statements:**

On an annual basis, the SBA will prepare financial statements for the Florida PRIME for the period ending June 30th. Financial Statements are prepared in conformity with generally accepted accounting principles. Chapter 218.409(9), Florida Statutes requires the State of Florida Auditor General (AG) to conduct an annual financial audit of the Florida PRIME. Once the AG has issued their report, the SBA will issue the financial statements.

### **9) Financial Disclosures:**

The SBA will issue to the PRIME Participants a financial disclosure document for the fiscal years ending June 30th and September 30th prior to the end of the following month end. The disclosure will contain information necessary for the participant to accurately report on their account balances in the Florida PRIME.

## **VIII. RATE DETERMINATION PROCESS FOR DEPOSITS AND WITHDRAWALS**

### **INTRODUCTION**

At any point in time, a PRIME Participant's balance in the Florida PRIME can be thought of as the sum of the PRIME Participant's deposits, withdrawals and net income to date. Typically, an investor in a money market fund uses the average yield on his account balance to compare performance over time and between competing investment products. Yields are commonly utilized in money market products rather than total returns since the objective of a money market fund is to hold the value of each unit of ownership at \$1.00. This has the effect of treating all earnings as income rather than a combination of income plus capital gains minus capital losses.

This document describes the two different methods that are used to calculate reported performance of the Florida PRIME. Both are reported on the Florida PRIME website (<https://www.sbafla.com/prime>). Both of these yields convey useful and important information to current and potential investors.

## **RETURN DESCRIPTIONS**

### **Florida PRIME Participant Yield**

The PRIME Participant Yield reflects the actual Florida PRIME investment earnings that are credited to all PRIME Participant accounts net of administrative fees (including reserve charges) for a given month. Apportionment of investment earnings is based upon the average daily balance of a PRIME Participant's account at cost and is done on the accrual basis of accounting. It is assumed that all securities will be held to maturity and redeemed at par. The PRIME Participant Yield is reported so that PRIME Participants are able to reconcile the investment earnings credited to their accounts (or the yield) back to their average daily balance or shares in the Florida PRIME. For example, if the PRIME Participant Yield for given time period was 3%, this means that each \$1 invested in the Florida PRIME earned the Participant \$.03 on an annualized basis. Annualization is the process of calculating a rate or yield as though it applied over a full 12 months. This facilitates comparison of performance over time periods of different duration. Florida PRIME Participant yields can only be calculated at the end of a reporting period (in the case of Florida PRIME, monthly).

### **Rate of Return Calculation**

The Rate of Return for the Local Government Surplus Funds Trust Fund shall be calculated in accordance with the yield methodology set forth by the Securities and Exchange Commission (SEC) Rule 2a-7 (17 CFR §270.2a-7) under the Investment Company Act of 1940 for money market funds. Rule 2a-7 can be obtained by accessing the SEC website at [sec.gov](http://sec.gov) and clicking on the Laws & Regulations section. For the purposes of comparing the yield of the Local Government Surplus Funds Trust Fund to that of a performance benchmark for participant reporting, a net-of-fees methodology will be utilized for all reporting periods for both the Local Government Surplus Funds Trust Fund and the performance benchmark.

This category of performance measures are useful to compare Florida PRIME's performance to other funds, since most institutional money market funds report or advertise a 7-Day and 30-Day average yield. These yield measures serve as a common ground for performance comparisons between money market funds and their peer based benchmarks.

### **"Net-of-Fee" versus "Gross-of-Fee" Yields**

When comparing performance, it is important to ascertain whether yields are reported on a net- or gross-of-fee basis. One cannot make informed conclusions about competing products (or the same product over different time periods) if performance excluding the impact of fees (gross yields) is compared to performance including the dilutory effect of fees (net yields). For complete disclosure, SBA always reports yields on a net-of-fee basis.

## **FOR MORE INFORMATION**

Detailed information on performance measurement for the Florida PRIME is contained in SBA policy 20-560. Copies are available upon request.

<sup>1</sup> For other types of investment products (with fluctuating unit prices) such as stock or bond funds, total rates of return are utilized rather than yields because they explicitly capture capital gains and losses as well as the income component. Because the majority of

the securities in 2a-7 AAA rated funds such as the Florida PRIME are of the highest credit quality and the duration is kept short, the difference between amortized cost and marked-to-market value is usually minimal. Therefore the SBA does not report a total return on the Florida PRIME website or in participant statements.

<sup>2</sup> These yields are calculated pursuant to Chapter 19-7.011, Florida Administrative Code. Actual income is distributed at month end based on the average daily balances of participating accounts.

<sup>3</sup> A similar issue exists with respect to comparison to performance benchmarks. SBA reports performance relative to a gross-of-fee benchmark, notwithstanding the fact that no investment products are available without fees. We believe this is an unambiguous metric against which all investment products should be measured.

**Investment Policy Statement  
Local Government Surplus Funds Trust Fund (Non-Qualified)  
Effective August 2, 2016**

***I. Purpose and Scope***

The purpose of this Investment Policy Statement (“Policy”) is to set forth the investment objective, investment strategies, and authorized portfolio securities for the Local Government Surplus Funds Trust Fund (“Florida PRIME”). The Policy also describes the risks associated with an investment in Florida PRIME. This Policy does not relate to Fund B as defined in Section 218.421, Florida Statutes.

***II. Overview of Florida PRIME***

The Local Government Surplus Funds Trust Fund was created by an Act of the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV, Florida Statutes). The State Board of Administration (“SBA”) is charged with the powers and duties to administer and invest Florida PRIME, in accordance with the statutory fiduciary standards of care as contained in Section 215.47(9), Florida Statutes. The SBA has contracted with Federated Investment Counseling (the “Investment Manager”) to provide investment advisory services for Florida PRIME.

Florida PRIME is governed by Chapters 215 and 218, Florida Statutes, and Chapter 19-7 of the Florida Administrative Code (collectively, “Applicable Florida Law”).

***III. Roles and Responsibilities***

The Board of Trustees of the SBA (“Trustees”) consists of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. The Trustees will annually certify that Florida PRIME is in compliance with the requirements of Chapter 218, Florida Statutes, and that the management of Florida PRIME is in accord with best investment practices.

The Trustees delegate the administrative and investment authority to manage Florida PRIME to the Executive Director of the SBA, subject to Applicable Florida Law. The Trustees appoint an Investment Advisory Council and a Participant Local Government Advisory Council. Both Councils will, at least annually, review this Policy and any proposed changes prior to its presentation to the Trustees and will undertake other duties set forth in Applicable Florida Law.

***IV. Amortized Cost Accounting***

In March 1997, the Governmental Accounting Standards Board (“GASB”) issued Statement 31, titled “Accounting and Financial Reporting for Certain Investments and for External Investment Pools.” GASB 31 applies to Florida PRIME.

GASB 31 outlines the two options for accounting and reporting for money market investment pools as either “2a-7 like” or fluctuating net asset value (“NAV”). GASB 31 describes a “2a-7 like” pool as an “external investment pool that is not registered with the Securities and Exchange Commission (“SEC”) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with Rule 2a-7 under the Investment Company Act of 1940 (the “1940 Act”).” Rule 2a-7 is the rule that permits money market funds to use amortized cost to maintain a constant NAV of \$1.00 per share, provided that such funds meet certain conditions.

In December 2015, GASB issued Statement 79, “Certain External Investment Pools and Pool Participants,” which delinks the accounting treatment of external investment pools from Rule 2a-7, and

establishes criteria for the use of amortized cost to value portfolio assets of an external pool. GASB 79 also made clear that rounding unit value up or down to the nearest penny to maintain a stable NAV of \$1.00 per share for issuances and redemptions of units is an operational decision for an external investment pool, rather than an accounting matter. GASB 79 also specifies, however, that seeking to maintain a stable price of \$1.00 per share is one of the criteria that an external investment pool must meet as a condition to valuing all portfolio assets at amortized cost for financial reporting purposes.

Florida PRIME will seek to operate in a manner consistent with the criteria and requirements in GASB 79, including diversification, credit quality and maturity conditions. Accordingly, it is thereby permitted to value portfolio assets at amortized cost method.

#### ***V. Investment Objective***

The primary investment objectives for Florida PRIME, in priority order, are safety, liquidity, and competitive returns with minimization of risks. Investment performance of Florida PRIME will be evaluated on a monthly basis against the Standard & Poor's U.S. AAA & AA Rated GIP All 30 Day Net Yield Index. While there is no assurance that Florida PRIME will achieve its investment objectives, it endeavors to do so by following the investment strategies described in this Policy.

#### ***VI. Investment Strategies & Specific Limitations***

The Investment Manager will invest Florida PRIME's assets in short-term, high-quality fixed income securities. All Florida PRIME assets (100 percent) will be U.S. dollar-denominated. To be considered high-quality, a security must be rated in the highest short-term rating category by one or more nationally recognized statistical rating organizations ("NRSROs"), or be deemed to be of comparable quality thereto by the Investment Manager, subject to Section 215.47(1)(j), Florida Statutes. The Investment Manager also may enter into special transactions for Florida PRIME, like repurchase agreements. Each repurchase agreement counterparty must have an explicit issuer or counterparty credit rating in the highest short-term rating category from Standard & Poor's. Certain of the fixed-income securities in which Florida PRIME invests pay interest at a rate that is periodically adjusted ("Adjustable Rate Securities").

The Investment Manager will manage credit risk by purchasing only high quality securities. The Investment Manager will perform a credit analysis to develop a database of issuers and securities that meet the Investment Manager's standard for minimal credit risk. The Investment Manager monitors the credit risks of all Florida PRIME's portfolio securities on an ongoing basis by reviewing periodic financial data, issuer news and developments, and ratings of certain NRSROs. The Investment Manager will utilize a "new products" or similar committee to review and approve new security structures prior to an investment of Florida PRIME's assets in such securities. The Investment Manager will periodically consider and follow best practices in connection with minimal credit risk determinations (e.g., such as those described in Appendix I of the Investment Company Institute's 2009, *Report of the Money Market Working Group*).

The Investment Manager will manage interest rate risk by purchasing only short-term fixed income securities. The Investment Manager will target a dollar-weighted average maturity range for Florida PRIME based on its interest rate outlook. The Investment Manager will formulate its interest rate outlook by analyzing a variety of factors, such as current and expected U.S. economic growth; current and expected interest rates and inflation; and the Federal Reserve Board's monetary policy. The Investment Manager will generally shorten Florida PRIME's dollar-weighted average maturity when it expects interest rates to rise and extend Florida PRIME's dollar-weighted average maturity when it expects interest rates to fall. In order to meet the investment grade ratings criteria of Standard & Poor's for a pool, the remaining maturity of securities purchased by the Investment Manager shall not exceed 762 days for government floating rate notes/variable rate notes and will not exceed 397 days for all other securities; provided, however, that if not required by the ratings criteria of the applicable NRSRO that is providing

an investment grade rating to the pool and to the extent consistent with the portfolio criteria of GASB 79, longer term floating rate/variable rate notes that are U.S. government securities may be owned by Florida PRIME.

The Investment Manager will exercise reasonable care to maintain (i) a dollar weighted average maturity (“DWAM”) of 60 days or less; and (ii) a maximum weighted average life (WAL) within the range of 90-120 days, depending on the levels of exposure and ratings of certain Adjustable Rate Securities. The maximum WAL will depend upon the percentage exposures to government and non-government Adjustable Rate Securities, with sovereign (government) Adjustable Rate Securities rated AA- and higher allowed a 120-day limit, and non-sovereign (corporate) Adjustable Rate Securities (and sovereign Adjustable Rate Securities rated below AA-) restricted to a 90-day limit. The portfolio’s maximum WAL will be based on a weighted average of the percentage exposures to each type of floating-rate instrument.

For purposes of calculating DWAM, the maturity of an Adjustable Rate Security generally will be the period remaining until its next interest rate adjustment. For purposes of calculating WAL, the maturity of an Adjustable Rate Security will be its stated final maturity, without regard to interest rate adjustments; accordingly, the WAL limitation could serve to restrict Florida PRIME’s ability to invest in Adjustable Rate Securities.

The Investment Manager will exercise reasonable care to limit exposure to not more than 25% of Florida PRIME’s assets in a single industry sector, with the exception that the Investment Manager may invest more than 25% in the financial services industry sector, which includes banks, broker-dealers, and finance companies. This higher limit is in recognition of the large outstanding value of money fund instruments issued by financial services firms. Government securities are not considered to be an industry.

The Investment Manager will exercise reasonable care to not acquire a security, other than (i) a Daily Liquid Asset, if immediately after the acquisition Florida PRIME would have invested less than 10% of its total assets in Daily Liquid Assets; (ii) a Weekly Liquid Asset, if immediately after the acquisition Florida PRIME would have invested less than 30% of its total assets in Weekly Liquid Assets. Daily Liquid Assets include cash, direct obligations of the U.S. government and securities that convert to cash in one business day. Weekly Liquid Assets include cash, direct obligations of the U.S. government, certain government securities with remaining maturities of 60 business days or less and securities that convert to cash in five business days.

Florida PRIME shall seek to hold liquid assets sufficient to meet reasonably foreseeable redemptions, based upon knowledge of the expected cash needs of participants.

The Investment Manager will exercise reasonable care to not acquire securities that cannot be sold or disposed of in the ordinary course of business within five business days at approximately the value ascribed to them by Florida PRIME if, immediately after the acquisition, Florida PRIME would have invested more than 5% of its total assets in such securities.

In buying and selling portfolio securities for Florida PRIME, the Investment Manager will comply with (i) the diversification, maturity and credit quality criteria in GASB 79, (ii) the requirements imposed by any NRSRO that rates Florida PRIME to ensure that it maintains a AAAM rating (or the equivalent) and (iii) the investment limitations imposed by Section 215.47, Florida Statutes except to the extent, as permitted by Section 215.44(3), the trust instrument of Florida PRIME and this investment policy statement specifically authorize investments in addition to those authorized by Section 215.47.

The Investment Manager generally will comply with the following diversification limitations that are additional to those set forth in GASB 79. First, at least 50% of Florida PRIME assets will be invested in securities rated “A-1+” or those deemed to be of comparable credit quality thereto by the Investment Manager (i.e., so long as such deeming is consistent with the requirements of the NRSRO’s AAAM (or

equivalent) rating criteria), subject to Section 215.47(1)(j), Florida Statutes. The Investment Manager will document each instance in which a security is deemed to be of comparable credit quality and its basis for such a determination. Second, exposure to any single non-governmental issuer (other than a money market mutual fund) will not exceed 5% and exposure to any single money market mutual fund will not exceed 10% of Florida PRIME assets.

### ***VII. Portfolio Securities and Special Transactions***

The Investment Manager will purchase only fixed income securities for Florida PRIME, and may engage in special transactions, for any purpose that is consistent with Florida PRIME's investment objective.

Fixed income securities are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a short-term fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which Florida PRIME may invest include corporate debt securities, bank instruments, asset backed securities, U.S. Treasury securities, U.S. government agency securities, insurance contracts, municipal securities, foreign securities, mortgage backed securities, and shares of money market mutual funds. However, Florida PRIME is not permitted to buy such fixed income securities to the extent that they require Florida PRIME to be a qualified institutional buyer.

Special transactions are transactions into which Florida PRIME may enter, including, but not limited to, repurchase agreements and delayed delivery transactions.

For a more detailed description of Florida PRIME's portfolio securities and special transactions, please see "Additional Information Regarding Florida PRIME's Principal Securities" at Appendix A.

### ***VIII. Risks Associated with Florida PRIME***

An investment in Florida PRIME is subject to certain risks. Any investor in Florida PRIME should specifically consider, among other things, the following principal risks before making a decision to purchase shares of Florida PRIME.

#### ***Risk that Florida PRIME will not Maintain a Stable Net Asset Value***

Although the Investment Manager attempts to manage Florida PRIME such that it maintains a stable NAV of \$1.00 per share, there is no guarantee that it will be able to do so. Florida PRIME is not registered under the 1940 Act or regulated by the SEC.

#### ***Interest Rate Risks***

The prices of the fixed income securities in which Florida PRIME will invest rise and fall in response to changes in the interest rates paid by similar securities. Generally, when interest rates rise, prices of fixed income securities fall. However, market factors, such as demand for particular fixed income securities, may cause the price of certain fixed income securities to fall while the price of other securities rise or remain unchanged. Interest rate changes have a greater effect on the price of fixed income securities with longer maturities.

#### ***Credit Risks***

Credit risk is the possibility that an issuer of a fixed income security held by Florida PRIME will default on the security by failing to pay interest or principal when due. If an issuer defaults, Florida PRIME will lose money.

*Liquidity Risks*

Trading opportunities are more limited for fixed income securities that are not widely held. These features make it more difficult to sell or buy securities at a favorable price or time. Consequently, Florida PRIME may have to accept a lower price to sell a security, sell other securities to raise cash or give up an investment opportunity, any of which could have a negative effect on Florida PRIME's performance.

*Concentration Risks*

A substantial part of Florida PRIME may be comprised of securities issued by companies in the financial services industry, companies with similar characteristics, or securities credit enhanced by banks or companies with similar characteristics. As a result, Florida PRIME may be more susceptible to any economic, business, or political risks or other developments that generally affect finance companies. Developments affecting companies in the financial services industry or companies with similar characteristics might include changes in interest rates, changes in the economic cycle affecting credit losses and regulatory changes.

*Risks of Foreign Investing*

Foreign securities pose additional risks because foreign economic or political conditions may be less favorable than those of the United States. Securities in foreign markets also may be subject to taxation policies that reduce returns for U.S. investors.

*Call Risks*

If a fixed income security is called, Florida PRIME may have to reinvest the proceeds in other fixed income securities with lower interest rates, higher credit risks or other less favorable characteristics.

*Prepayment Risks*

Unlike traditional fixed income securities, which pay a fixed rate of interest until maturity (when the entire principal amount is due), payments on asset-backed securities include both interest and a partial payment of principal. Partial payment of principal may be comprised of scheduled principal payments as well as unscheduled payments from voluntary prepayment, refinancing, or foreclosure of the underlying loans. If Florida PRIME receives unscheduled prepayments, it may have to reinvest the proceeds in other fixed income securities with lower interest rates, higher credit risks or other less favorable characteristics.

*Risks Associated with Amortized Cost Method of Valuation*

Florida PRIME will use the amortized cost method to determine the value of its portfolio securities. Under this method, portfolio securities are valued at the acquisition cost as adjusted for amortization of premium or accumulation of discount rather than at current market value. Accordingly, neither the amount of daily income nor the NAV is affected by any unrealized appreciation or depreciation of the portfolio. In periods of declining interest rates, the indicated daily yield on shares computed by dividing the annualized daily income on Florida PRIME's portfolio by the NAV, as computed above, may tend to be higher than a similar computation made by using a method of valuation based on market prices and estimates. In periods of rising interest rates, the opposite may be true.

*Changing Distribution Level Risk*

There is no guarantee that Florida PRIME will provide a certain level of income or that any such income will exceed the rate of inflation. Further, Florida PRIME's yield will vary. A low interest rate environment may prevent Florida PRIME from providing a positive yield or paying expenses out of current income.

Throughout this section, it shall be understood that actions described as being taken by Florida PRIME refer to actions taken by the Investment Manager on behalf of Florida PRIME.

For additional information regarding Florida PRIME's principal securities and associated risks, please see Appendix A.

### ***IX. Controls and Escalation Procedures***

Section 218.409(2), Florida Statutes requires this Policy to document a system of internal controls designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the board or a professional money management firm. The controls include formal escalation reporting guidelines for all employees to address material impacts on Florida PRIME that require reporting and action.

The SBA has engaged BNY Mellon ("Custodian") to provide asset safekeeping, custody, fund accounting and performance measurement services to Florida PRIME. The Custodian will mark to market the portfolio holdings of Florida PRIME on a daily basis and will daily communicate both amortized cost price and mark to market price, so that the SBA and the Investment Manager can monitor the deviations between the amortized cost price and market price. By contractual agreement, the Investment Manager will reconcile accounting and performance measurement reports with the Custodian on at least a monthly basis, under the supervision of the SBA.

The NRSRO that rates Florida PRIME will perform regular independent surveillance of Florida PRIME. The SBA and an independent investment consultant will regularly monitor the Investment Manager with respect to performance and organizational factors according to SBA manager monitoring policies.

The SBA and third parties used to materially implement Florida PRIME will maintain internal control, fraud and ethics policies and procedures designed to prevent the loss of public funds.

The Executive Director will develop policies and procedures to:

- Identify, monitor and control/mitigate key investment and operational risks.
- Maintain an appropriate and effective risk management and compliance program that identifies, evaluates and manages risks within business units and at the enterprise level.
- Maintain an appropriate and effective control environment for SBA investment and operational responsibilities.
- Approve risk allocations and limits, including total fund and asset class risk budgets.

The Executive Director will appoint a Chief Risk and Compliance Officer, whose selection, compensation and termination will be affirmed by the Board, to assist in the execution of the responsibilities enumerated in the preceding list. For day-to-day executive and administrative purposes, the Chief Risk and Compliance Officer will proactively work with the Executive Director and designees to ensure that issues are promptly and thoroughly addressed by management. On at least a quarterly basis, the Chief Risk and Compliance Officer will provide reports to the Investment Advisory Council, Audit Committee and Board, and is authorized to directly access these bodies at any time as appropriate to ensure the integrity and effectiveness of risk management and compliance functions.

Pursuant to written SBA policy, the Executive Director will organize an Investment Oversight Group to regularly review, document and formally escalate compliance exceptions and events that may have a material impact on Florida PRIME. Minutes of the Investment Oversight Group's meetings and a listing of meeting participants shall be timely posted on the Florida PRIME website.

The Investment Oversight Group will meet and report monthly to the Executive Director, except upon the occurrence of a material event. The SBA and the Investment Manager have an affirmative duty to immediately disclose any material impact on Florida PRIME to the participants, including, but not limited to:

1. When the deviation between the market value and amortized cost of Florida PRIME exceeds 0.25%, according to pricing information provided by the Custodian, the Investment Manager will establish a formal action plan. The Investment Oversight Group will review the formal action plan and prepare a recommendation for the Executive Director's consideration.
2. When the deviation between the market value and amortized cost of Florida PRIME exceeds 0.50%, according to pricing information provided by the Custodian, the Executive Director will promptly consider what action, if any, will be initiated. Where the Executive Director believes the extent of any deviation from Florida PRIME's amortized cost price per share may result in material dilution or other unfair results to investors or existing shareholders, he will cause Florida PRIME to take such action as he deems appropriate to eliminate or reduce to the extent reasonably practicable such dilution or unfair results.
3. The Investment Manager will perform daily compliance monitoring to ensure that investment practices comply with the requirements of this Policy, according to documented compliance procedures. The Investment Manager will provide regular compliance reports and will communicate compliance exceptions within 24 hours of identification to the Investment Oversight Group. Additionally, the Investment Oversight Group will periodically conduct independent compliance reviews.
4. In the event that a security receives a credit rating downgrade and ceases to be in the highest rating category, or the Investment Manager determines that the security is no longer of comparable quality to the highest short-term rating category (in either case, a "Downgrade"), the Investment Manager will reassess whether the security continues to present minimal credit risk and will cause Florida PRIME to take any actions determined by the Investment Manager to be in the best interest of Florida PRIME; provided however, that the Investment Manager will not be required to make such reassessments if Florida PRIME disposes of the security (or the security matures) within five business days of the Downgrade.
5. In the event that a security no longer meets the criteria for purchase due to default, event of insolvency, a determination that the security no longer presents minimal credit risks, or other material event ("Affected Security"), the Investment Manager must dispose of the security as soon as practical, consistent with achieving an orderly disposition of the security, by sale, exercise of a demand feature or otherwise, and the requirements of GASB 79. An Affected Security may be held only if the Executive Director has determined, based upon a recommendation from the Investment Manager and the Investment Oversight Group, that it would not be in the best interest of Florida PRIME to dispose of the security taking into account market conditions that may affect an orderly disposition.
6. The Investment Manager will monthly stress test Florida PRIME and at least quarterly report the results of the stress tests to the Investment Oversight Group. Stress tests must be conducted for at least the following events, or combinations of events (i) a change in short-term interest rates; (ii) an increase in net shareholder redemptions; (iii) downgrades or defaults; and (iv)

changes between a benchmark overnight interest rate and the interest rates on securities held by Florida PRIME.

The Investment Manager will at least annually provide the Investment Oversight Group with: (i) their documented compliance procedures; (ii) an assessment of Florida PRIME's ability to withstand events reasonably likely to occur in the coming year and (iii) their list of NRSROs utilized as a component of the credit risk monitoring process.

The Executive Director's delegated authority as described in this section is intended to provide him with sufficient authority and operating flexibility to make professional investment decisions in response to changing market and economic conditions. Nonetheless, the Trustees will at least monthly review and approve management summaries of material impacts on Florida PRIME, any actions or escalations taken thereon, and carry out such duties and make such determinations as are otherwise necessary under applicable law, regulation or rule.

Pursuant to Florida law, the Auditor General will conduct an annual financial audit of Florida PRIME, which will include testing for compliance with this Policy.

#### ***X. Deposits and Withdrawals***

Investors should refer to the separate Florida PRIME Operating Procedures for detailed descriptions regarding how to make deposits in and withdrawals from Florida PRIME, including (1) any fees and limitations that may be imposed with respect thereto; and (2) reports provided to participants.

#### ***XI. Management Reporting***

The Executive Director will be responsible for providing the formal periodic reports to the Trustees, legislative committees and other entities:

1. An annual report on the SBA and its investment portfolios, including that of Florida PRIME.
2. A monthly report on performance and investment actions taken.
3. Special reports pursuant to Chapter 218, Florida Statutes.

**Appendix A**  
**Additional Information Regarding Florida PRIME's Principal Securities**

Throughout this appendix it shall be understood that actions described as being taken by Florida PRIME refer to actions taken by the Investment Manager on behalf of Florida PRIME.

**FIXED INCOME SECURITIES**

**Corporate Debt Securities**

Corporate debt securities are fixed income securities issued by businesses. Notes, bonds, debentures and commercial paper are the most prevalent types of corporate debt securities. Florida PRIME also may purchase interests in bank loans to companies.

**COMMERCIAL PAPER**

Commercial paper is an issuer's obligation with a maturity of generally less than 270 days. Companies typically issue commercial paper to pay for current expenditures. Most issuers constantly reissue their commercial paper and use the proceeds (or bank loans) to repay maturing paper. If the issuer cannot continue to obtain liquidity in this fashion, its commercial paper may default.

**DEMAND INSTRUMENTS**

Demand instruments are corporate debt securities that the issuer must repay upon demand. Other demand instruments require a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. Florida PRIME treats demand instruments as short-term securities, even though their stated maturity may extend beyond one year.

**Bank Instruments**

Bank instruments are unsecured interest bearing deposits with banks. Bank instruments include, but are not limited to, bank accounts, time deposits, certificates of deposit and banker's acceptances. Yankee instruments are denominated in U.S. dollars and issued by U.S. branches of foreign banks. Eurodollar instruments are denominated in U.S. dollars and issued by non-U.S. branches of U.S. or foreign banks.

Florida PRIME will not invest in instruments of domestic and foreign banks and savings and loans unless they have capital, surplus, and undivided profits of over \$100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund or the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation. These instruments may include Eurodollar Certificates of Deposit, Yankee Certificates of Deposit, and Euro-dollar Time Deposits.

Florida PRIME shall further limit its investments in bank instruments consistent with the requirements of GASB 79.

**Asset Backed Securities**

Asset backed securities are payable from pools of obligations, most of which involve consumer or commercial debts. However, almost any type of fixed income assets (including other fixed income securities) may be used to create an asset backed security. Asset backed securities may take the form of commercial paper, notes or pass-through certificates.

## **Government Securities**

Government security means any security issued or guaranteed as to principal or interest by the United States, or by a person controlled or supervised by and acting as an instrumentality of the Government of the United States pursuant to authority granted by the Congress of the United States; or any certificate of deposit for any of the foregoing.

## **U.S. Treasury Securities**

U.S. Treasury securities are direct obligations of the federal government of the United States. U.S. Treasury securities are generally regarded as having the lowest credit risks.

## **Agency Securities**

Agency securities are issued or guaranteed by a federal agency or other government sponsored entity (GSE) acting under federal authority. Some GSE securities are supported by the full faith and credit of the United States. These include securities issued by the Government National Mortgage Association, Small Business Administration, Farm Credit System Financial Assistance Corporation, Farmer's Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority.

Other GSE securities receive support through federal subsidies, loans or other benefits. For example, the U.S. Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association, and Tennessee Valley Authority in support of such obligations.

A few GSE securities have no explicit financial support, but are regarded as having implied support because the federal government sponsors their activities. These include securities issued by the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

Investors regard agency securities as having low credit risks, but not as low as Treasury securities. Florida PRIME treats mortgage-backed securities guaranteed by a GSE as if issued or guaranteed by a federal agency. Although such a guarantee protects against credit risks, it does not reduce market risks.

## **Insurance Contracts**

Insurance contracts include guaranteed investment contracts, funding agreements and annuities. Florida PRIME treats these contracts as fixed income securities.

## **Municipal Securities**

Municipal securities are issued by states, counties, cities and other political subdivisions and authorities.

## **Foreign Securities**

Foreign securities are U.S. dollar-denominated securities of issuers based outside the United States. Florida PRIME considers an issuer to be based outside the United States if:

- it is organized under the laws of, or has a principal office located in, another country;
- the principal trading market for its securities is in another country; or

- it (or its subsidiaries) derived in its most current fiscal year at least 50% of its total assets, capitalization, gross revenue or profit from goods produced, services performed or sales made in another country.

### **Mortgage Backed Securities**

Mortgage backed securities represent interests in pools of mortgages. The mortgages that comprise a pool normally have similar interest rates, maturities and other terms. Mortgages may have fixed or adjustable interest rates. Interests in pools of adjustable rate mortgages are known as ARMs.

### **Zero Coupon Securities**

Certain of the fixed income securities in which Florida PRIME invests are zero coupon securities. Zero coupon securities do not pay interest or principal until final maturity, unlike debt securities that provide periodic payments of interest (referred to as a “coupon payment”). Investors buy zero coupon securities at a price below the amount payable at maturity. The difference between the purchase price and the amount paid at maturity represents interest on the zero coupon security. Investors must wait until maturity to receive interest and principal, which increases the interest rate and credit risks of a zero coupon security.

### **Callable Securities**

Certain of the fixed income securities in which Florida PRIME invests are callable at the option of the issuer. Callable securities are subject to reinvestment risks.

### **144A Securities**

The SBA has determined that Florida PRIME constitutes (i) an “accredited investor” as defined in Rule 501(a)(7) promulgated under the Securities Act of 1933, as amended (the “Securities Act”), as long as Florida PRIME has total assets in excess of \$5,000,000 and (ii) a “qualified purchaser” as defined in Section 2(a)(51)(A)(iv) of the 1940 Act, as long as Florida PRIME in the aggregate owns and invests on a discretionary basis not less than \$25,000,000 in investments, but does not constitute a “qualified institutional buyer” as defined in Rule 144A(a)(1) promulgated under the Securities Act. Florida PRIME is restricted from purchasing or acquiring securities or investments that would require Florida PRIME to represent in connection with such purchase or acquisition that it is a “qualified institutional buyer” as defined in Rule 144A(a)(1) promulgated under the Securities Act.

### **Money Market Mutual Funds**

Florida PRIME may invest in shares of registered investment companies that are money market mutual funds, including those that are affiliated with the Investment Manager, as an efficient means of implementing its investment strategies and/or managing its uninvested cash. These other money market mutual funds are managed independently of Florida PRIME and incur additional fees and/or expenses that would, therefore, be borne indirectly by Florida PRIME in connection with such investment. However, the Investment Manager believes that the benefits and efficiencies of this approach should outweigh the potential additional fees and/or expenses. The Investment Manager must obtain prior written consent of the SBA to invest Florida PRIME in money market mutual funds that are “affiliated persons” of the Investment Manager.

### **SPECIAL TRANSACTIONS**

The Investment Manager on behalf of Florida PRIME may engage in the following special transactions.

### **Repurchase Agreements**

A repurchase agreement is a transaction in which Florida PRIME buys a security from a dealer or bank and agrees to sell the security back at a mutually agreed-upon time and price. The repurchase price exceeds the sale price, reflecting Florida PRIME's return on the transaction. This return is unrelated to the interest rate on the underlying security. Florida PRIME will enter into repurchase agreements only with banks and other recognized financial institutions, such as securities dealers, deemed creditworthy by the Investment Manager. The securities that are subject to the repurchase transactions are limited to securities in which Florida PRIME would be permitted to invest, except that such securities may have a maturity longer than would otherwise be permitted for Florida PRIME to own.

Florida PRIME's custodian or subcustodian will take possession of the securities subject to repurchase agreements. The Investment Manager or subcustodian will monitor the value of the underlying security each day to ensure that the value of the security always equals or exceeds the repurchase price.

Repurchase agreements are subject to credit risks.

### **Delayed Delivery Transactions**

Delayed delivery transactions, including when-issued transactions, are arrangements in which Florida PRIME buys securities for a set price, with payment and delivery of the securities scheduled for a future time. During the period between purchase and settlement, no payment is made by Florida PRIME to the issuer and no interest accrues to Florida PRIME. Florida PRIME records the transaction when it agrees to buy the securities and reflects their value in determining the price of its units. Settlement dates may not be more than seven business days after entering into these transactions; nonetheless, the market values of the securities bought may vary from the purchase prices. Therefore, delayed delivery transactions create interest rate risks for Florida PRIME. Delayed delivery transactions also involve credit risks in the event of a counterparty default.

### **Asset Coverage**

In order to secure its obligations in connection with special transactions, Florida PRIME will either own the underlying assets, enter into an offsetting transaction or set aside readily marketable securities with a value that equals or exceeds Florida PRIME's obligations. Unless Florida PRIME has other readily marketable assets to set aside, it cannot trade assets used to secure such obligations without terminating a special transaction. This may cause Florida PRIME to miss favorable trading opportunities or to realize losses on special transactions.



**End of Agenda Item**