Village of Wellington

INVESTMENT POLICY

Approved

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I. SCOPE

This Investment Policy ("Policy") applies to all transactions involving the financial assets held or controlled by the Village of Wellington ("Village") and its component units, not otherwise classified as restricted assets requiring separate investing, in accordance with the requirements of Section 218.415, Florida Statutes. These assets and related activity are accounted for in the Village's annual financial report in the following funds:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Enterprise Funds
- Any new funds created by the Village, unless specifically exempted by the Legislative body.

This Policy shall not apply to pension funds, including those funds under chapters 175 and 185, or funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds or assets held by third parties (custodians or money managers) under Bond Trust Indenture Agreements. Cash and investment balances as defined in this Section are entirely known as "Available Funds".

II. OBJECTIVES

The primary objectives, in priority order, of investment activities shall be safety of capital liquidity of funds and then return on investment.

Safety of Capital

Safety of capital is the primary objective of the investment program. Accordingly, the overall investment portfolio shall be managed to ensure capital (principal) losses are avoided by mitigating credit risk and interest rate risk.

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer or supporter. Credit risk is mitigated by:

- Limiting investments to the safest types of securities.
- Pre-qualifying financial institutions, broker/dealers, intermediaries, and advisors with which the Village will do business.
- Diversifying the investment portfolio to minimize potential losses on

individual securities.

- Monitoring investments to anticipate and respond appropriately to changing market conditions.

Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by:

- Structuring portfolio maturities to match cashflow requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating, payroll, and capital requirements that may be reasonably anticipated. The Village's portfolio should always encompass the ability for quick conversion to cash without loss of principal to meet cashflow requirements. The Village will attempt to forecast expected cashflows by major categories in as much detail and with as much precision as possible. The Village will monitor the findings of the cashflow forecast and make revisions as appropriate.

To the extent possible, the Village will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cashflow requirement or otherwise approved by the Village Council, the Village will not directly invest in securities maturing more than five (5) years from the date of purchase.

Return on Investment

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. However, return is attempted through active management where the adviser utilizes a total return strategy (which includes both realized and unrealized gains and losses in the portfolio). This total return strategy seeks to increase the value of the portfolio through reinvestment of income and capital gains. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Despite this, a portfolio manager may trade to recognize a loss from time to time to achieve a perceived relative value based on its potential to enhance the total return of the portfolio.

III. PRUDENCE AND ETHICAL STANDARDS

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 safety of capital, liquidity needs, and the expected income to be derived from the investment.

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the State Statutes and other laws, 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. They shall further disclose any personal financial/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 Village.

While the standard of prudence to be used by the Village's staff is the Prudent Person standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of "Prudent Expert". The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the contractor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

IV. AUTHORITY AND RESPONSIBILITY

The Director of Administrative and Financial Services is designated as the investment officer of the Village and is responsible to manage the investment portfolio and to establish and maintain internal controls over the investment process consistent with this Policy, under the direction of the Village Manager.

The Director of Administrative and Financial Services shall be responsible for all transactions undertaken, including the activities of subordinate officials, and may delegate authority and responsibility for certain investment transactions and procedures as outlined in the Accounting Manual. The Village may employ investment advisorsto assist in investing, monitoring, or advising on the Village's investments. Such investment advisorsmust be registered under the Investment Advisors Act of 1940.

The Village maintains employee dishonesty insurance and bonding for all employees and officials with signatory authority.

V. MATURITY AND LIQUIDITY REQUIREMENTS

A periodic cash flow analysis will be completed to determine the acceptable allocation and balances for each of the following funds. The Assistant Finance Director or designee will be responsible for the cash flow analysis, which will be presented to the Director of Administrative and Financial Services for review.

Operating Funds

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Individual investments of current operating funds shall have maturities of no longer than twenty-four (24) months ("Short-Term Portfolio").

Core Funds

Investments of reserves, and other non-operating funds ("Long- Term Portfolio") shall have a term appropriate to the need for funds, but in no event shall the maturity of any individual security exceed five (5) years and the average duration of the portfolio as a whole may not exceed three (3) years.

Bond Proceeds

Bond proceeds shall be invested in accordance with permitted investments types as defined within the bond issue trust indenture. The maturity structure of the bond proceeds investment portfolio(s) shall be determined by anticipated cash flow schedule(s) with consideration given to the potential for changes in expenditures for project funds and other uses of bond proceeds.

VI. SUITABLE AND AUTHORIZED INVESTMENTS

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

The following are the investment instrument parameters and allocation limits on security types, issuers, and maturities, as established by the Village. For the purpose of complying with allocation limits, the term "Available Funds" is defined as Section I of this Policy and not including balances invested in the overnight sweep investment. The Director of Administrative and Financial Services or designee, shall have the option to further restrict investment percentages from time to time based on market conditions, risk and diversification investment strategies. The percentage allocation requirements for investment types and issuers are calculated based on the market value of each investment at the time of purchase. Investments not listed in this Policy are prohibited.

Security Type	Minimum Rating Requirement	Maturity Limits	Maximum Allocation Limit	Maximum Issuer Limit
Florida PRIME Fund	AAAm	N/A	25%	N/A
United States Government Securities	N/A	5 Years	100%	N/A
United States Government Agencies (full faith and credit of the United States Government)	N/A	5 Years	50%	25%
Federal Instrumentalities (United States Government Sponsored Enterprises (“GSE”) which are non-full faith and credit).*	N/A	5 Years	80%	40%
Mortgage-Backed Securities (MBS) *	N/A	5 Years	20%	15%
Interest Bearing Time Certificates of Deposit or Saving Accounts	N/A	1 Year	25%	15%
Repurchase Agreements	N/A	90 Days	50%	25%
Commercial Paper**	P-1/A-1	270 Days	25%	5%
Corporate Notes**	single “A” category by two NRSROs***	5 Years	25%	5%
Asset-Backed Securities (ABS)**	Double “A” category by any two NRSROs***	5 Years	15%	5%
Bankers’ Acceptances	P-1/A-1	180 Days	25%	5%
State and/or Local Government Taxable and/or Tax-Exempt Debt	Single “A” category by two NRSROs***	5 Years	20%	10%
Registered Investment Companies (Money Market Mutual Funds)	AAAm	N/A	50%	25%
Registered Investment Companies (Mutual Funds)	AAA	3 Years	40%	20%
Intergovernmental Investment Pool	AAAm or AAAf	N/A	35%	N/A
Florida League of Cities, Inc. Enhanced Cash Portfolio	N/A	N/A	15%	N/A

* The combined total of available funds invested in Federal Instrumentalities and Mortgage Backed Securities cannot be more than 80%.
**The maximum amount of corporate investments will not exceed thirty five percent (35%). Therefore, the combination of Section (H) Commercial Paper, Section (I) Corporate Notes, and Section (J) Asset-Backed Securities shall not exceed thirty five percent (35%). Corporate Notes are limited to 15% per industry.
***National Recognized Statistical Rating Organization (NRSRO).

Portfolio Composition and Diversification

A. The Florida PRIME Fund.

1. Investment Authorization

   Invest in the Florida PRIME Fund.

2. Portfolio Composition

   A maximum of 25% of Available Funds may be invested in the Florida PRIME Fund.

3. Rating Requirements

   The money market funds shall be rated “AAAm” by Standard & Poor’s or the equivalent by another Nationally Recognized Statistical Ratings Organization (NRSRO).

4. Due Diligence Requirements

   A thorough review of any money market fund is required prior to investing, and on a continual basis. The questionnaire provided in Appendix A must be completed prior to investing.

B. United States Government Securities

1. Purchase Authorization

   Invest in negotiable direct obligations, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. Such securities will include, but not be limited to the following:

   Cash Management Bills
   Treasury Securities – State and Local Government Series (“SLGS”)
   Treasury Bills
   Treasury Notes
   Treasury Bonds
   Treasury Strips

2. Portfolio Composition
   A maximum of 100% of Available Funds may be invested in the United States Government Securities.

3. Maturity Limitations

The maximum length to maturity of any direct investment in the United States Government Securities is five (5) years from the date of settlement.

C. United States Government Agencies (full faith and credit of the United States Government)

1. Purchase Authorization

Invest in bonds, mortgage instruments, debentures or notes which may be subject to call, issued or guaranteed as to principal and interest by the United States Government Agencies, provided such obligations are backed by the full faith and credit of the United States Government. Such securities will include, but not be limited to the following:

Government National Mortgage Association (GNMA)
GNMA guaranteed mortgage-backed bonds
GNMA guaranteed pass-through obligations
United States Export – Import Bank
Direct obligations or fully guaranteed certificates of beneficial ownership
Farmer Home Administration
Certificates of beneficial ownership
Federal Financing Bank
Discount notes, notes and bonds
Federal Housing Administration Debentures
General Services Administration
United States Maritime Administration Guaranteed Title XI Financing
New Communities Debentures
United States Government guaranteed debentures
United States Public Housing Notes and Bonds
United States Government guaranteed public housing notes and bonds
United States Department of Housing and Urban Development
Project notes and local authority bonds

2. Portfolio Composition

A maximum of 50% of Available Funds may be invested in United States Government Agencies.

3. Limits on Individual Issuers

   A maximum of 25% of available funds may be invested in individual United States Government Agencies.

4. Maturity Limitations

   The maximum length to maturity for an investment in any United States Government Agency security is five (5) years from the date of settlement.

D. Federal Instrumentalities (United States Government Sponsored Enterprises ("GSE") which are non-full faith and credit).

1. Purchase Authorization

   Invest in bonds, mortgage instruments debentures or notes which may be subject to call, issued or guaranteed as to principal and interest by Federal Instrumentalities (United States Government Sponsored Enterprises), which are non-full faith and credit agencies including the following:

   Federal Farm Credit Bank (FFCB)
   Federal Home Loan Banks (FHLB)
   Federal National Mortgage Association (FNMA)
   Federal Home Loan Mortgage Corporation (Freddie-Mac) including Federal-Home Loan Mortgage Corporation participation certificates

2. Portfolio Composition

   A maximum of 80% of Available Funds may be invested in Federal Instrumentalities. Callable securities are limited to 20% of Available Funds. The combined total of available funds invested in Federal Instrumentalities and Mortgage Backed Securities cannot be more than 80%.

3. Limits on Individual Issuers

   A maximum of 40% of Available Funds may be invested in individual Federal Instrumentalities.

4. Maturity Limitations

   The maximum length to maturity for an investment in any Federal Instrumentality security is five (5) years from the date of settlement.

E. Mortgage-Backed Securities (MBS)

1. Purchase Authorization

Invest in mortgage-backed securities (MBS) which are based on mortgages that are guaranteed by a government agency or GSE for payment of principal and a guarantee of timely payment.

2. Portfolio Composition

A maximum of 20% of available funds may be invested in MBS. The combined total of available funds invested in Federal Instrumentalities and Mortgage Backed Securities cannot be more than 80%.

3. Limits of Individual Issuers

A maximum of 15% of available funds may be invested with any one issuer.

4. Maturity Limitations

A maximum length to maturity for an investment in any MBS is five (5) years from the date of settlement.

The maturity of mortgage securities shall be considered the date corresponding to its average life. This date reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security's description.

F. Interest Bearing Time Certificates of Deposit or Saving Accounts

1. Purchase Authorization

Invest in non-negotiable interest bearing time certificates of deposit or savings accounts in banks organized under the laws of this state and/or in national banks organized under the laws of the United States and doing business and situated in the State of Florida, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes

2. Portfolio Composition

A maximum of 25% of Available Funds may be invested in non-negotiable interest bearing time certificates of deposit or savings accounts.

3. Limits on Individual Issuers

A maximum of 15% of Available Funds may be deposited with any one issuer.

4. Maturity Limitations

The maximum maturity on any certificate of deposit shall be no greater than one (1) year from the date of settlement.

G. Repurchase Agreements

1. Purchase Authorization

a. Invest in repurchase agreements composed of only those investments based on the requirements set forth by the Village's Master Repurchase Agreement. All firms are required to sign the Master Repurchase Agreement prior to the execution of a repurchase agreement transaction.

b. A third party custodian with whom the Village has a current custodial agreement shall hold the collateral for all repurchase agreements with a term longer than one (1) business day. A clearly marked receipt that shows evidence of ownership must be supplied to the Director of Administrative and Financial Services and retained.

c. Securities authorized for collateral are negotiable direct obligations of the United States Government, Government Agencies, and Federal Instrumentalities with maturities under five (5) years and must have a market value for the principal and accrued interest of 102 percent of the value and for the term of the repurchase agreement. Immaterial short-term deviations from 102 percent requirement are permissible only upon the approval of the Director of Administrative and Financial Services

2. Portfolio Composition

A maximum of 50% of Available Funds may be invested in repurchase agreements excluding one (1) business day agreements and overnight sweep agreements.

3. Limits on Individual Issuers

A maximum of 25% of Available Funds may be invested with any one institution excluding one (1) business day agreements and overnight sweep agreements.

4. Limits on Maturities

The maximum length to maturity of any repurchase agreement is 90 days from the date of settlement.

5. Performance Calculation

Overnight sweep investments for the purpose of calculating investment performance and asset allocation requirements will be excluded from the calculations.

H. Commercial Paper

1. Purchase Authorization

Invest in commercial paper of any company operating in the United States that is rated, at the time of purchase, at a minimum “Prime-1” by Moody’s or better and “A-1” by Standard & Poor’s or better (prime commercial paper) or the equivalent by two NRSRO.

2. Portfolio Composition

A maximum of 25% of Available Funds may be directly invested in prime commercial paper.

3. Limits on Individual Issuers

A maximum of 5% of Available Funds may be invested with any one issuer.

4. Maturity Limitations

The maximum length to maturity for prime commercial paper shall be 270 days from the date of settlement.

I. Corporate Notes

1. Purchase Authorization

Invest in corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a long term debt rating, at the time of purchase, at a minimum of single “A” category or better by any two NRSROs.

2. Portfolio Composition

   A maximum of 25% of Available Funds may be directly invested in corporate notes.

3. Limits on Individual Issuers

   A maximum of 5% of Available Funds may be invested with any one issuer.

4. Maturity Limitations

   The maximum length to maturity for corporate notes shall be five (5) years from the date of settlement.

J. Asset-Backed Securities (ABS)

1. Purchase Authorization

   The Village may invest in asset-backed securities (ABS) which are bonds or notes backed by financial assets.

2. Portfolio Composition

   A maximum of 15% of available funds may be invested in ABS.

3. Limits of Individual Issuers

   A maximum of 5% of available funds may be invested with any one ABS.

4. Maturity Limitations

   A maximum length to maturity for an investment in any ABS is five (5) years from the date of settlement.

   The maturity of asset-backed securities shall be considered the date corresponding to its average life. This date reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security’s description.

5. Rating Requirements

ABS shall be AA rated or better by Standard & Poor's, or the equivalent by another rating agency.

K. Bankers' Acceptances

1. Purchase Authorization

Invest in Bankers' Acceptances issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, at the time of purchase, the short-term paper is rated, at a minimum, "P-1" by Moody's Investors Services or better and "A-1" Standard & Poor's or better, or the equivalent by another NRSROs.

2. Portfolio Composition

A maximum of 25% of Available Funds may be directly invested in Bankers' Acceptances.

3. Limits on Individual Issuers

A maximum of 5% of Available Funds may be invested with any one issuer.

4. Maturity Limitations

The maximum length to maturity for Bankers' Acceptances shall be 180 days from the date of settlement.

L. State and/or Local Government Taxable and/or Tax-Exempt Debt

1. Purchase Authorization

Invest in state and/or local government taxable and/or tax-exempt debt, general obligation and/or revenue bonds, rated, at the time of purchased, at a minimum single "A" category by any two NRSROs, or rated at a minimum "VMIG2" by Moody's or better and "A-2" by Standard & Poor's or better for short-term debt or the equivalent by another NRSRO.

2. Portfolio Composition

A maximum of 20% of Available Funds may be invested in taxable and tax-exempt debts.

3. Limits on Individual Issuers

   A maximum of 10% of Available Funds may be invested with any one issuer.

4. Maturity Limitations

   A maximum length to maturity for an investment in any state or local government debt security is five (5) years from the date of settlement.

M. Registered Investment Companies (Money Market Mutual Funds)

1. Investment Authorization

   Invest in shares in open-end and no-load money market mutual funds provided such funds are registered under the Federal Investment Company Act of 1940 and operate in accordance with 17 C.F.R. § 270.2a-7, which stipulates that money market mutual funds must have an average weighted maturity of 60 days or less. The prospectus of such funds must indicate that the share value shall not fluctuate.

2. Portfolio Composition

   A maximum of 50% of Available Funds may be invested in money market mutual funds.

3. Limits of Individual Issuers

   A maximum of 25% of Available Funds may be invested with any one money market mutual fund.

4. Rating Requirements

   The money market mutual funds shall be rated, at a minimum, “AAAm” by Standard & Poor’s or the equivalent by another NRSRO.

5. Due Diligence Requirements

   A thorough investigation of any money market mutual fund is required prior to investing and on a quarterly basis. The questionnaire provided in Appendix A must be completed prior to investing. A current prospectus must be obtained prior to investing.

N. Registered Investment Companies (Mutual Funds)

1. Investment Authorization

   Invest in shares in open-end and no-load mutual funds, with fluctuating net asset values, provided such funds are registered under the Federal Investment Company Act of 1940. The prospectus of such funds must indicate that the mutual fund's average duration is maintained at 3 years or less and the mutual fund invests exclusively in investment instruments as authorized by this Policy.

2. Portfolio Composition

   A maximum of 40% of Available Funds may be invested in mutual funds.

3. Limits of Individual Issuers

   A maximum of 20% of Available Funds may be invested with any one mutual fund.

4. Rating Requirements

   Mutual funds shall be rated "AAA" by Standard & Poor's or an equivalent rating by another NRSRO.

5. Due Diligence Requirements

   A thorough investigation of any mutual fund is required prior to investing and on a quarterly basis. The questionnaire provided in Appendix A must be completed prior to investing. A current prospectus must be obtained prior to investing.

O. Intergovernmental Investment Pool

1. Investment Authorization

   Intergovernmental investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes.

2. Portfolio Composition

   A maximum of 35% of Available Funds may be invested in intergovernmental investment pools.

3. Rating Requirements

   The Intergovernmental Investment Pool shall be rated “AAAm” or “AAAf” by Standard & Poor’s or the equivalent by another NRSRO.

4. Due Diligence Requirements

   A thorough investigation of any pool fund is required prior to investing and on a quarterly basis. The questionnaire provided in Appendix A must be completed prior to investing. A current prospectus must be obtained prior to investing.

P. Florida League of Cities, Inc. Enhanced Cash Portfolio

1. Investment Authorization

   Florida League of Cities, Inc. Enhanced Cash Portfolio

2. Portfolio Composition

   A maximum of 15% of Available Funds may be invested in the Enhanced Cash Portfolio.

3. Due Diligence Requirements

   A thorough investigation of the Enhanced Cash Portfolio is required prior to investing and on a quarterly basis. The questionnaire provided in Appendix A must be completed prior to investing. A current prospectus must be obtained prior to investing.

VII. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

The Village’s Investment Advisor(s) shall establish and maintain a list of approved broker/dealers and financial institutions and provide the Village with a copy of approved broker/dealers upon request. The Investment Advisor(s), will only buy and sell securities using broker/dealers registered with the Federal Reserve Bank of New York’s list of “Primary Government Securities Dealers”, non-primary securities dealers approved by the Investment Advisor(s), or from banks and savings and loan associations (including their wholly owned subsidiaries or their parent companies’ wholly owned subsidiaries established to provide institutional brokerage services) that are included on the list of “qualified public depositories” issued by the State of Florida. These entities must qualify under Securities and Exchange Commission

(SEC) Rule 15C3-1 (uniform net capital rule). No depository will operate without at least $100 million in collateral or insurance coverage on the Village's accounts. The Investment Advisor(s) will be responsible for operating within the guidelines of this policy and will be responsible for the selection of "Primary Government Securities Dealers". All approved non-primary securities dealers must qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

The selection of broker/dealers used by an external Investment Advisor(s) retained by the Village will be at the sole discretion of the Investment Advisor(s). For all transactions executed by the Village's Director of Administrative and Financial Services, or Designee, the approved broker must provide the following information prior to executing investment trades with the Village:

1. Annual financial statement, as well as most recent quarterly statement.
2. Regulatory history, through either the Office of the Comptroller of the Currency for dealer banks, or the NASD for securities firms.
3. Statement of any pending lawsuits materially affecting the firm's business.

VIII. THIRD-PARTY CUSTODIAL AGREEMENTS

All securities purchased by the Village under this section shall be properly designated as an asset of the Village 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 Director of Administrative and Financial Services or designee as authorized herein. In addition, it may be found to be appropriate to accept confirmation from the trust company affiliated with the other party of the transaction if the structure of this affiliation is such that the two entities are fully independent of each other, that controls are adequate, and that the Village's security interest in the assets is not lost.

Exceptions to this method of control will be the safekeeping of non-negotiable bank certificates of deposit, the Florida State Board of Administration, and various mutual funds which would require physical delivery without systematic handling found commonly with book entry securities.

The Village will execute third-party custodial agreements with its bank(s) and depository institutions(s). Such agreements will include designation of authority from the Village, details as to responsibilities of each party, notification of security purchases, sales, delivery, repurchase agreements and wire transfers, safekeeping and transaction costs, procedures in case of wire failure, or other unforeseen conditions including liability of each party.

Delivery vs. Payment

All trades, where applicable, will be executed by delivery vs. payment (DVP) to ensure securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

IX. BID REQUIREMENTS

Where feasible and appropriate, purchases and sales of securities initiated by the Village or the Investment Advisor should generally be accompanied by price quotes from three (3) separate brokers/dealers to ensure the acquisition of market-based prices. Documentation will be retained for all bids, with the winning bid clearly identified. Competitive bids are not applicable in instances where the Village has executed a cash management agreement with an approved institution which addresses the considerations described in the third-party agreement section above.

In certain circumstances where an institution or dealer informs the Village or the Investment Advisor that a potential purchase or sale must be completed within minutes of notification, the competitive bidding Policy may be waived, providing the Director of Administrative and Financial Services or designee specifically approves such individual transactions prior to execution. Periodically, various government agencies announced the issue of new securities to the financial markets. Since all new issues are generally sold at par, the Village would not realize any benefit by purchasing these securities through the competitive bid process. In the case of such new issues of "to be announced" (TBA) securities, the competitive bidding process need not apply.

X. INTERNAL CONTROLS

The Director of Administrative and Financial Services or designee has established a system of internal controls and operational procedures that are in writing and made a part of the Village's finances operational procedures (see Accounting Manual). The internal controls should be designed to prevent losses of funds, which might arise from fraud, employee error and misrepresentation by third parties, or imprudent actions by employees. The written procedures should include reference to safekeeping, repurchase agreements, separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts, collateral/depository agreements, and "delivery-vs-payment" procedures. No person may engage in an investment transaction except as authorized under the terms of this Policy.

All book entry securities shall be held by the third party custodian, and all book entry transactions will be completed on a "delivery-vs-payment" method.

Independent auditors as a normal part of the annual financial audit to the Village shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

XI. CONTINUING EDUCATION

The Director of Administrative and Financial Services and any designees shall annually complete eight (8) hours of continuing education in subjects or courses related to investment practices and products.

XII. REPORTING

The Director of Administrative and Financial Services or designee shall prepare a quarterly investment report, which includes a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This report will be prepared in a manner which will allow the Village to ascertain whether investment activities during the reporting period have conformed to the Policy. The report shall be available to the Village Manager and the Village Council. The report will include the following:

- A listing of individual securities held at the end of the reporting period indicating type, transactions which occurred during the period, par amount (as well as adjusted cost basis), stated yield, maturity date, posted collateral, and actual investment earnings in dollars.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over a one-year duration that are not intended to be held under maturity.
- Average weighted yield to maturity of the overall portfolio on investments as compared to applicable benchmarks.
- The percentage of the total portfolio which each type of investment represents.
- The Investment Advisor will provide statement in the Village’s quarterly reports as to the whether the Village’s investments are in compliance with the Policy.

Marking-to-Market

A statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility.

XIII. SECURITIES

Every security held on behalf of the Village must be properly earmarked and:

- If registered with the issuer or its agents, must be immediately placed for safekeeping in a location that protects the Village's interest in the security;

- If in book entry form, must be held for the credit of the governing body by a depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Florida Statutes, Section 658.12, or by a national association organized and existing under the laws of the United States which is authorized to accept and exercise trusts and which is doing business in the State of Florida, and must be kept in the depository in an account separate and apart from the assets of the financial institution; or

- If physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault.

The Village may also receive bank trust receipts in return for investment of surplus funds in securities. Any trust receipts received must enumerate the various securities held, together with the specific number of each security held. The actual securities on which the trust receipts are issued may be held by any bank depository chartered by the Federal Government, the State of Florida, or any other state as defined in Section 658.12, Florida State Statutes, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida.

XIV. PERFORMANCE MEASUREMENTS

In order to assist in the evaluation of the portfolios' performance, the Village will use nationally recognized performance measurements ("benchmarks") for the Short-Term and Long-Term portfolios. The use of benchmarks will allow the Village to measure its returns against other investors in the same markets. Performance calculations will not include any balances invested in the overnight sweep accounts and savings accounts.

Annually, the Investment Committee will review the performance measurements to ascertain their continued relevance based on the composition of the Village's portfolio.

A. Investment performance of funds designated as short-term funds and other funds that must maintain a high degree of liquidity will be compared to the return on the S&P Rated GIP Index Government 30 Day Yield. Investments of current operating funds shall have maturities of no longer than twenty-four (24) months.

B. Investment performance of the Long-Term Portfolio (“Core”) will be compared to an index such as the ICE BofA Merrill Lynch’s 1–3 Year or 1-5 Year United States Treasury Index or an equivalent index comprised of U. S. Treasury or Government securities. The designated index will have a duration and asset mix that approximates the portfolio and will be utilized as a benchmark to be compared to the portfolio’s total rate of return.

XV. INVESTMENT DECISIONS

The investment decisions for the Village’s investment program must be based solely on pecuniary factors and may not subordinate the interests of the beneficiaries of the investments to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor. The weight given to any pecuniary factor must appropriately reflect a prudent assessment of its impact on risk or returns. As used in this policy, “pecuniary factor” has the same meaning as defined section 218.415(24)(a), Florida Statutes.

XVI. INVESTMENT COMMITTEE

The Village may have an Investment Committee that meets on a quarterly basis to discuss the performance of the Village’s investment portfolios, the compliance of the portfolio with regard to the Policy, and items such as economic and market conditions.

The Investment Committee will be made up of members selected by the Director of Administrative and Financial Services.

XVII. EXEMPTIONS

Any investment held that does not meet the guidelines of this Policy, at the time the Policy is adopted, shall be exempt from the requirements of this Policy. At maturity or liquidation, such moneys shall be reinvested only as provided by this Policy.

XVIII. AMENDMENTS

This Policy shall be reviewed by the Investment Committee on an annual basis. Any changes must be approved by the Director of Administrative and Financial Services, the Village Manager, and the Village Council, as well as the individual(s) charged with maintaining internal controls.

Appendix A:

Investment Pool/Fund Questionnaire

1. A description of eligible investment securities, and a written statement of investment policy and objectives.

2. A description of interest calculations and how it is distributed, and how gains and losses are treated.

3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.

4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.

5. A schedule for receiving statements and portfolio listings.

6. Are reserves, retained earnings, etc. utilized by the pool/fund?

7. A fee schedule, and when and how is it assessed.

8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

Appendix B:

Glossary of Cash and Investment Management Terms

The following is a glossary of key investing terms, many of which appear in the Village’s investment policy. This glossary clarifies the meaning of investment terms generally used in cash and investment management. This glossary has been adapted from the GFOA Sample Investment Policy and the Association of Public Treasurers of the United States and Canada’s Model Investment Policy.

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 six-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 re-openings 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. 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/Bonds. 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 a 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 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 NRSROs.

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, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own account.

Delivery Versus 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 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. (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). For hedging purposes, common derivatives are options, futures, interest rate swaps, and swaptions. All Collateralized Mortgage Obligations (CMOs) are derivatives.

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

Designated Bond. FFCB's regularly issued, liquid, non-callable securities that generally have a 2 or 3 year original maturity. New issues of Designated Bonds are $1 billion or larger. Re-openings of existing Designated Bond issues are generally a minimum of $100 million. Designated Bonds are offered through a syndicate of two to six dealers. Twice each month the Funding Corporation announces its intention to issue a new Designated Bond, reopen an existing issue, or to not issue or reopen a Designated Bond. Issues under the Designated Bond program constitute the same credit standing as other FFCB issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

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. Very large primary (new issue) and secondary markets exist.

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. Dividing investment funds among a variety of security types, maturities, industries, and issuers offering potentially independent returns.

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.

Duff & Phelps. One of several NRSROs that provide credit ratings on corporate and bank debt issues.

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 primarily 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). Federal agency that insures deposits at commercial banks, currently to a limit of $250,000 per depositor per bank.

Federal Farm Credit Bank (FFCB). One of the large Federal Agencies. A government sponsored enterprise (GSE) 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. 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). One of the large Federal Agencies. 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"). One of the large Federal Agencies. 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"). One of the large Federal Agencies. 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.

Financial Industry Regulatory Authority, Inc. (FINRA). A private corporation that acts as a self-regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD). Though sometimes mistaken for a government agency, it is a non-governmental organization that performs financial regulation of member brokerage firms and exchange markets. The government also has a regulatory arm for investments, the Securities and Exchange Commission (SEC).

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 NRSROs 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 than 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. are typically denominated in U.S. dollars.

Government National Mortgage Association (GNMA or "Ginnie Mae"). One of the large Federal Agencies. Government-owned Federal Agency that acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities. Largest issuer of mortgage pass-through securities. GNMA debt is guaranteed by the full faith and credit of the U.S. government (one of the few agencies that are actually full faith and credit of the U.S. government).

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 U.S. Treasuries. Examples of GSEs include: FHLB, FHLMC, FNMA, and SLMA.

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

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 ensures 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:

1. **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

2. **Separation of transaction authority from accounting and record keeping** - A separation of duties is achieved by separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction.

3. **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.

4. **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.

5. **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.

6. **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.

7. **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 Grade. Bonds considered suitable for preservation of invested capital, including 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. Additionally, it is 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, (e.g., Florida State Board of Administration's Florida Prime Fund).

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 and seller 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 Securities Industry and Financial Markets Association (SIFMA) 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 (MTN's). 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 a maturity 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: U.S. 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 to "rule 2a-7" which significantly limits average maturity and credit quality of holdings. MMF's 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 with varying levels of risk and complexity. 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. The 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 (e.g., bond, equity, and money market funds); all except money market funds operate on a variable net asset value (NAV).

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 including securities, cash, and any accrued earnings, then subtracting the total assets 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)

NRSRO. A “Nationally Recognized Statistical Rating Organization” (NRSRO) is 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. A 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. The 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. A designation given to certain government securities dealer by 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 the largest buyers and sellers by volume 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 Expert Rule. Standard that requires that a fiduciary manage a portfolio with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. This statement differs from the "prudent person" rule in that familiarity with such matters suggests a higher standard than simple prudence.

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 Subsection 280.02(26), F.S., "qualified public depository" means any bank, savings bank, or savings association that:

1. 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.
2. 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.
3. Has deposit insurance under the provision of the Federal Deposit Insurance Act, as amended, 12 U.S.C. ss.1811 et seq.

4. Has procedures and practices for accurate identification, classification, reporting, and collateralization of public deposits.

5. Meets all requirements of Chapter 280, F.S.

6. Has been designated by the Chief Financial Officer 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 actually 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 U.S. 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 re-openings 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.

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 Industry and Financial Markets Association (SIFMA). 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 SIFMA also recommends bond market closures and early closes due to holidays.

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 U.S. 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.

STRIPS (Separate Trading of Registered Interest and Principal of Securities). Acronym applied to U.S. 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). One of the large Federal Agencies. 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 U.S. 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, 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 are sold at a discount from face value and do not pay interest before maturity. The difference between the purchase price of the bill and the maturity value is the interest earned on the bill. Currently, the U.S. Treasury issues 4-week, 13-week, and 26-week T-Bills.

Treasury Bonds. Long-term interest-bearing debt securities backed by the U.S. government and issued with maturities of ten years and longer by the U.S. Department of the Treasury. The Treasury stopped issuing Treasury Bonds in August 2001.

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. The Treasury currently issues 2-year, 5-year, and 10-year Treasury Notes.

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

Uniform Net Capital Rule. SEC Rule 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 actually 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 (or just “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 Curve. A graphic depiction of yields on like securities in relation to remaining maturities spread over a time line. The traditional yield curve depicts yields on U.S. 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 can 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.

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