

CHAPTER 7.00 - BUSINESS SERVICES

INVESTMENT OF FUNDS

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I. Purpose

The purpose of this policy is to set forth the investment objectives and parameters for the management of public funds of the School Board of Osceola County, Florida (hereinafter "School Board"). These policies are designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

II. Scope

In accordance with Section 218.415, Florida Statutes, this investment policy applies to all cash and investments held or controlled by the School Board with the exception of Pension Funds and funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds. Funds held by state agencies (e.g., Department of Education) are not subject to the provisions of this policy.

III. Investment Objectives

A. Safety of Principal

The foremost objective of this investment program is the safety of the principal of those funds within the portfolios. Investment transactions shall seek to keep capital losses at a minimum, whether they are from securities defaults or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

B. Maintenance of Liquidity

The portfolio shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. Periodic cash flow analyses will be completed in order to ensure that the portfolios are positioned to provide sufficient liquidity.

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C. Return on Investment

Investment portfolios 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. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

IV. Delegation of Authority

The responsibility for providing oversight and direction in regard to the management of the investment program resides with the School Board's Chief Business and Finance Officer (hereinafter the "Chief Business Officer"). The daily management responsibility for all School Board funds in the investment program and investment transactions is delegated to the Director of Finance. The Chief Business Officer shall establish written procedures for the operation of the investment portfolio and a system of internal accounting and administrative controls to regulate the activities of employees. The School Board may employ an Investment Advisor to assist in managing some of the School Board's portfolios. Such Investment Advisor must be registered under the Investment Advisers Act of 1940.

V. Standards of Prudence

The standard of prudence to be used by investment officials shall be the "Prudent Person" standard and shall be applied in the context of managing the overall investment program. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectation are reported to the Chief Business Officer in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. The "Prudent Person" rule states the following:

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment.

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

VI. Ethics and Conflicts of Interest

Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. In addition, employees involved in the investment process shall disclose to the Superintendent or designee any material financial interests in financial institutions that conduct business with the School Board, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the School Board's investment program.

VII. Internal Controls and Investment Procedures

The Chief Business Officer shall establish a system of internal controls and operational procedures that are in writing and made a part of the School Board's operational procedures. 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 and collateral/depository agreements. No person may engage in an investment transaction except as authorized under the terms of this policy.

The independent auditor, as a normal part of the annual financial audit to the School Board shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

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VIII. Continuing Education

The Chief Business Officer, the Director of Finance, and other appropriate staff shall annually complete eight (8) hours of continuing education in subjects or courses of study related to investment practices and products.

IX. Authorized Investment Institutions and Dealers

Authorized School Board staff shall only purchase securities from financial institutions, which are qualified as public depositories by the Treasurer of the State of Florida, institutions designated as "Primary Dealers" by the Federal Reserve Bank of New York or from direct issuers of commercial paper and bankers' acceptances.

Authorized School Board staff shall only enter into repurchase agreements with financial institutions that are state qualified public depositories and primary dealers as designated by the Federal Reserve Bank of New York.

X. Maturity and Liquidity Requirements

Operating Funds

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

Core Funds

Investments of reserves and other non-current operating funds ("core funds" or "Surplus Fund") shall have a term appropriate to the need for funds and in accordance with debt covenants, shall not exceed five and one-half (5.50) years. Longer-term maturities require School Board approval prior to the purchase of the investments.

The maturities of the underlying securities of a repurchase agreement will follow the requirements of the Securities Industry and Financial Markets Association (SIFMA) Master Repurchase Agreement.

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XI. Risk and Diversification

Assets held shall be diversified to control risks resulting from over concentration of assets in a specific maturity, issuer, instruments, dealer, or bank through which these instruments are bought and sold. The Director of Finance and/or Investment Advisor shall determine diversification strategies within the established guidelines.

XII. Master Repurchase Agreement

The Director of Finance will require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the SIFMA Master Repurchase Agreement. All repurchase agreement transactions will adhere to requirements of the SIFMA Master Repurchase Agreement.

XIII. Competitive Selection of Investment Instruments

1. After the Director of Finance or the Investment Advisor has determined the approximate maturity date based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) qualified banks and/or approved broker/dealers must be contacted and asked to provide bids/offers on securities in questions. Bids will be held in confidence until the bid deemed to meet the investment objectives best is determined and selected. Internal Funds may purchase certificates of deposit from depository banks on a non-competitive basis.

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

- a. Tradeweb
- b. Bloomberg Information Systems
- c. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing
- d. Daily market pricing provided by the School Board's custodian or their correspondent institutions

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2. The Director of Finance or the Investment Advisor shall utilize the competitive bid process to select the securities to be purchased or sold. Selection by comparison to a current market price, as indicated above, shall only be utilized when, in judgment of the Director of Finance or the Investment Advisor, competitive bidding would inhibit the selection process.

Examples of when this method may be used include:

- a. When time constraints due to unusual circumstances preclude the use of the competitive bidding process
 - b. When no active market exists for the issue being traded due to the age or depth of the issue
 - c. When a security is unique to a single dealer, for example, a private placement
 - d. When the transaction involves new issues or issues in the "when issued" market
3. Overnight sweep instruments including repurchase agreements and money markets will not be bid, but may be placed with the School Board's depository bank relating to the demand account for which the investment was purchased.

XIV. Authorized Investments and Portfolio Composition

Investments should be made subject to the cash flow needs, such cash flows are subject to revisions as market conditions, and the School Board'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 Finance may sell the investment at the then-prevailing market price and place the proceeds into the proper account at the School Board's custodian.

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the School Board. The Chief Business Officer or the Director of Finance shall have the option to restrict further investment percentages from time to time based on market conditions, risk, and diversification investment strategies. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment at the time of purchase. Investments not listed in this policy are prohibited. Internal Funds are exempt from the maturity and asset allocation requirements.

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A. Permitted Investments

1. U.S. Treasury & Government Guaranteed - U.S. Treasury obligations, and obligations the principal and interest of which are backed or guaranteed by the full faith and credit of the U.S. Government.
2. Federal Agency/GSE - Debt obligations, participations, or other instruments issued or fully guaranteed by any U.S. Federal agency, instrumentality, or government-sponsored enterprise (GSE).
3. Corporates – U.S. dollar denominated corporate notes, bonds or other debt obligations issued or guaranteed by a domestic corporation, financial institution, non-profit, or other entity.
4. Municipals – Obligations, including both taxable and tax-exempt, issued or guaranteed by any State, territory, or possession of the United States, political subdivision, public corporation, authority, agency board, instrumentality, or other unit of local government of any State or territory.
5. Agency Mortgage Backed Securities - Mortgage-backed securities (MBS), backed by residential, multi-family or commercial mortgages, that are issued or fully guaranteed as to principal and interest by a U.S. Federal agency or government sponsored enterprise, including but not limited to pass-throughs, collateralized mortgage obligations (CMOs), and REMICs.
6. Non-Negotiable Certificate of Deposit and Savings Accounts - Non-negotiable interest bearing time certificates of deposit, or savings accounts in banks organized under the laws of this state or in national banks organized under the laws of the United States and doing business in this state, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes.
7. Commercial Paper – U.S. dollar denominated commercial paper issued or guaranteed by a domestic corporation, company, financial institution, trust or other entity, including both unsecured debt and asset-backed programs.
8. Bankers' Acceptances - Bankers' acceptances issued, drawn on, or guaranteed by a U.S. bank or U.S. branch of a foreign bank.

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9. Repurchase Agreements - Repurchase agreements (Repo or RP) that meet the following requirements:
 - a. Must be governed by a written SIFMA Master Repurchase Agreement which specifies securities eligible for purchase and resale, and which provides the unconditional right to liquidate the underlying securities should the Counterparty default or fail to provide full timely repayment.
 - b. Counterparty must be a Federal Reserve Bank, a Primary Dealer as designated by the Federal Reserve Bank of New York, or a nationally chartered commercial bank.
 - c. Securities underlying repurchase agreements must be delivered to a third party custodian under a written custodial agreement and may be of deliverable or tri-party form. Securities must be held in the School Board's custodial account or in a separate account in the name of the School Board.
 - d. Acceptable underlying securities include only securities that are direct obligations of, or that are fully guaranteed by, the United States or any agency of the United States, or U.S. Agency-backed mortgage related securities.
 - e. Underlying securities must have an aggregate current market value of at least 102% (or 100% if the counterparty is a Federal Reserve Bank) of the purchase price plus current accrued price differential at the close of each business day.
 - f. Final term of the agreement must be 1 year or less.
10. Money Market Funds - Shares in open-end and no-load money market mutual funds, provided such funds are registered under the Investment Company Act of 1940 and operate in accordance with Rule 2a-7.

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

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11. Local Government Investment Pools – State, local government or privately sponsored investment pools that are authorized pursuant to state law.

A thorough investigation of any intergovernmental investment pool is required prior to investing, and on an annual basis. The procedures for this rule shall include a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool/fund. A current prospectus must be obtained.

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

B. General Investment and Portfolio Limits

1. General investment limitations:

- a. Investments must be denominated in U.S. dollars and issued for legal sale in U.S. markets.
- b. Minimum ratings are based on the highest rating by any one Nationally Recognized Statistical Ratings Organization (“NRSRO”), unless otherwise specified.
- c. All limits and rating requirements apply at time of purchase.
- d. Should a security fall below the minimum credit rating requirement for purchase, the Investment Advisor will notify the Director of Finance.
- e. The maximum maturity (or average life for MBS) of any investment is 5.50 years. Maturity and average life are measured from settlement date. The final maturity date can be based on any mandatory call, put, pre-refunding date, or other mandatory redemption date.

2. General portfolio limitations:

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- a. The maximum effective duration of the aggregate portfolio is three (3) years.
3. Investment in the following are permitted, provided they meet all other policy requirements:
 - a. Callable, step-up callable, called, pre-refunded, putable, and extendable securities, as long as the effective final maturity meets the maturity limits for the sector
 - b. Variable-rate and floating-rate securities
 - c. Subordinated, secured and covered debt, if it meets the ratings requirements for the sector
 - d. Zero coupon issues and strips, excluding agency mortgage-backed Interest-only structures (I/Os)
 - e. Treasury TIPS
 4. The following are NOT PERMITTED investments, unless specifically authorized by statute and with prior approval of the governing body:
 - a. Trading for speculation
 - b. Derivatives (other than callables and traditional floating or variable-rate instruments)
 - c. Mortgage-backed interest-only structures (I/Os)
 - d. Inverse or leveraged floating-rate and variable-rate instruments
 - e. Currency, equity, index and event-linked notes (e.g. range notes), or other structures that could return less than par at maturity
 - f. Private placements and direct loans, except as may be legally permitted by Rule 144A or commercial paper issued under a 4(2) exemption from registration
 - g. Convertible, high yield, and non-U.S. dollar denominated debt

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- h. Short sales
 - i. Use of leverage
 - j. Futures and options
 - k. Mutual funds, other than fixed-income mutual funds and ETFs, and money market funds
5. Equities, commodities, currencies and hard assets

(See chart on following pages.)

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Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Requirement¹	Ratings	Maximum Maturity
U.S. Treasury	100%	100%	N/A		5.50 Years (5.50 Years avg. life ⁴ for GNMA)
GNMA		40%			
Other U.S. Government Guaranteed (e.g. AID, GTC)		10%			
Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB*	75%	40% ³	N/A		5.50 Years
Federal Agency/GSE other than those above		10%			
Corporates	25% ²	5%	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3 or equivalent)		5.50 Years
Municipals	25%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)		5.50 Years
Agency Mortgage-Backed Securities (MBS)	25%	40% ³	N/A		5.50 Years Avg. Life ⁴
Non-Negotiable Collateralized Bank Deposits or Savings Accounts	50%	None, if fully collateralized	None, if fully collateralized.		2 Years
Commercial Paper (CP)	25% ²	5%	Highest ST Rating Category (A-1/P-1, or equivalent)		270 Days
Bankers' Acceptances (BAs)	10% ²	5%	Highest ST Rating Category (A-1/P-1, or equivalent)		180 Days

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Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Requirement¹	Ratings	Maximum Maturity
Repurchase Agreements (Repo or RP)	40%	20%	Counterparty (or if the counterparty is not rated by an NRSRO, then the counterparty's parent) must be rated in the Highest ST Rating Category (A-1/P-1, or equivalent) If the counterparty is a Federal Reserve Bank, no rating is required		1 Year
Money Market Funds (MMFs)	50%	25%	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)		N/A
Intergovernmental Pools (LGIPs)	50%	25%	Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP, (AAAm/AAAf, S1, or equivalent)		N/A
Florida Local Government Surplus Funds Trust Funds ("Florida Prime")	50%	N/A	Highest Fund Rating Categories by all NRSROs who rate the LGIP, (AAAm/AAAf, or equivalent)		N/A

Notes:

¹ Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization ("NRSRO"), unless otherwise noted. ST=Short-term; LT=Long-term.

² Maximum allocation to all corporate and bank credit instruments is 50% combined.

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

⁴ The maturity limit for MBS is based on the expected average life at time of settlement, measured using Bloomberg or other industry standard methods.

* Federal National Mortgage Association (FNMA); Federal Home Loan Mortgage Corporation (FHLMC); Federal Home Loan Bank or its District banks (FHLB); Federal Farm Credit Bank (FFCB).

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XV. Derivatives and Reverse Repurchase Agreements

Investment in any derivative products or the use of reverse repurchase agreements is specifically prohibited by this investment policy, unless otherwise stated in Section XIV. A "derivative" is defined as a financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or indices or asset values.

XVI. Performance Measurements

In order to assist in the evaluation of the portfolio's performance, the School Board will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks will allow the School Board to measure its returns against other investors in the same markets.

1. 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.
2. Investment performance of funds designated as core funds, Surplus Funds, and other non-operating funds that have a longer-term investment horizon will be compared to the Bank of America Merrill Lynch 1-3 Year U.S. Treasury/Agency Note Index and the portfolio's total rate of return will be compared to this benchmark. The appropriate 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.

XVII. Reporting

The Chief Business Officer shall provide the School Board with a quarterly and an annual investment report. The report should include the following:

1. A listing of individual securities held at the end of the reporting period
2. Percentage of available funds represented by each investment type
3. Coupon, discount or earning rate
4. Average life or duration and final maturity of all investments
5. Par value, and market value

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XVIII. Third-party Custodial Agreements

1. Securities, with the exception of certificates of deposits, shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by, the School Board should be properly designated as an asset of the School Board. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Section 658.12, Florida 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. Certificates of deposits will be placed in the provider's safekeeping department for the term of the deposit.
2. The custodian shall accept transaction instructions only from those persons who have been duly authorized by the Chief Business Officer and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping, shall be permitted unless by such a duly authorized person.
3. The custodian shall provide the Chief Business Officer with safekeeping receipts that provide detail information on the securities held by the custodian. Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

XIX. Investment Policy Adoption

The investment policy shall be adopted by School Board resolution. The Chief Business Officer and the Director of Finance shall review the policy annually, and the School Board shall approve any modification made thereto.

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XX. Investment Procedures Manual

The procedures for this rule shall be contained within the District Investment Procedures Manual. The District Investment Procedures Manual shall include a glossary of cash and investment terms and the Investment Pool/ Fund Questionnaire. The Department of Business and Fiscal Services shall maintain and update the District Investment Procedures Manual as necessary.

STATUTORY AUTHORITY:

1001.41, 1001.42, F.S.

LAW(S) IMPLEMENTED:

1001.32, 1001.43, 1011.09, F.S.

HISTORY:

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