

Polk State College Procedure

Subject	Reference	Date	Number
Investment of College Funds	DBOT Rule 5.06	11/7/17	6087

1. SCOPE AND GENERAL GUIDELINES

- a) This Investment Policy applies to the investment of funds in excess of current operational needs (Fund) managed by and for the benefit of Polk State College. Should the College choose to employ an external Investment Manager to manage such funds, the Manager will be selected through the Request for Proposals process.
- b) Management of the Fund shall be in accordance with F.S. 218.415 (4), and the State Board of Education Rule 6A-14.0765.
- c) Subject to the limitations provided above and throughout the Investment Policy Statement, the Investment Manager shall have full discretion in terms of asset mix, security selection, and timing of transactions.

2. INVESTMENT OBJECTIVES

The Fund's primary objective is to place the highest priority on the safety of principal and liquidity of funds. The optimization of investment income shall be secondary to the requirements for safety and liquidity. A secondary objective is to maximize income (book yield) while providing minimal risk of market value volatility and adequate short-term liquidity to meet any cash flow demands. As a tertiary objective, the portfolio seeks to outperform its benchmark on a total return basis.

3. PERFORMANCE MEASUREMENT

The target benchmark to be used is the Merrill Lynch 1-5 Year U.S. Treasury Index. Recognizing that varying market conditions may affect this long-term objective, the portfolio should also rank within the top 50 percentile of other fixed-income managers with similar objectives over a market cycle (4 to 7 years).

4. PRUDENCE AND ETHICAL STANDARDS

Investments shall be made in accordance with the "Prudent Person Rule" which states that "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence would 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."

5. AUTHORIZED INVESTMENTS

Investments shall be limited to fixed-income securities selected from the following types:

- a) U.S. Treasury Bills, Notes, Bonds, and Strips and other obligations whose principal and interest is fully guaranteed by the United States of America or any of its agencies or instrumentalities
- b) Government Sponsored Enterprises: Federal Farm Credit Bank (FFCB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB), Student Loan Marketing Association (SLMA), Financing Corporation (FICO), The Resolution Funding Corporation (REFCO), Farm Credit System Financial Assistance Corporation, the Federal Housing Finance Board, and all other government-sponsored agencies and enterprises
- c) Repurchase Agreements: collateralized at 102% by U.S. Treasuries
- d) Certificates of Deposit in state-certified qualified public depositories
- e) Mortgage-Backed Pass Throughs guaranteed by the U.S. Government or a Federal agency, including securities collateralized by the same
- f) Asset-Backed Securities: rated "AAA" by either Standard & Poor's or Moody's
- g) Money Market Instruments: securities rated "A1/P1" or the equivalent as a minimum as defined by Standard & Poor's and/or Moody's and all other nationally recognized credit rating organizations (Tier 1 as defined by 2(a) 7 money market funds) at the time of purchase; Included but not limited to commercial paper, time deposits, and banker's acceptances
- h) Corporate Notes rated single "A" and higher by both Standard & Poor's and Moody's
- i) Money Market Funds registered with the SEC and only invested in securities as allowed by this policy
- j) Any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in F.S. 163.01, which maintains a similar investment objective.

It should be recognized that certain securities may meet the above definition of an Authorized Investment but their risk characteristics, as created by their structure, may be such that a prudent investor would deem them inappropriate for the Fund. **Securities of this type, which are prohibited, include the following:**

- 1) Reverse repurchase agreement
- 2) Floating rate securities whose coupon floats inversely to an index or whose coupon is determined based upon more than one index
- 3) Tranches of Collateralized Mortgage Obligations (CMO) which receive only the interest or principal from the underlying mortgage securities, commonly referred to as "IO's" and "PO's"
- 4) Derivatives and other securities whose future coupon may be suspended because of the movement of interest rates or an index. The only exceptions allowed are (1) "plain vanilla" floating rate notes which would have their coupon rate of interest directly linked to a published interest rate index such as LIBOR or U.S. Treasury Bills and (2) other Authorized Investments specifically listed above which by the most strict interpretation, may be considered a derivative (e.g. AAA-rated Asset-Backed and Mortgage-Backed Securities).

6. MATURITY AND LIQUIDITY REQUIREMENTS

The investment portfolio (Fund) shall be constructed in such manner as to provide sufficient liquidity to pay obligations as they come due. To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements.

7. PORTFOLIO COMPOSITION

Recognizing that market value volatility is a function of maturity, the Investment Manager shall maintain the Fund as a short-term maturity portfolio. Additionally, it is recognized that proper diversification is considered a prudent investment approach. Specifically, the following restrictions apply in the management and investment of the Fund:

- a) The maximum average duration of the portfolio shall be no greater than 120% of the target benchmark's average duration.
 - 1) The maturity of debt obligations with a call and/or put option(s) shall be considered the date on which it can be reasonably expected that the bond will be called, put, or mature.
 - 2) The maturity of mortgage/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.
 - 3) The effective maturity of floating rate securities shall be considered the time until the next reset of the coupon. The maximum final maturity of a floating rate security shall be five (5) years from the date of purchase.
 - 4) The maximum effective maturity of an individual security shall be five (5) years from the date of purchase.
 - 5) To limit principal fluctuation, no more than 20% shall have an effective maturity greater than three (3) years.
 - 6) In order to provide sufficient liquidity and stability of principal, no less than 10% of the Fund shall have an effective maturity of one year or less.

b) A maximum of 5% of the Fund may be invested in securities of any single issuer. U.S. Government, Government Agency, and GSE securities are not subject to any limitations.

c) The Fund must maintain a total quality rating of 8.0 or higher on the following scale:

U.S. Government fully guaranteed:	10.0
Government sponsored enterprises (GSE):	9.0
“AAA”-rated securities:	8.0
“AA”-rated securities:	7.0
“A”- rated securities:	6.0

8. RISK AND DIVERSIFICATION

Investments held shall be diversified, in accordance with the guidelines set above, to the extent practicable to control the risk of loss resulting from over concentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are bought and sold. Diversification strategies within these guidelines shall be reviewed and revised periodically, as deemed necessary by the management staff.

9. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

The Investment Manager will maintain an approved list of investment institutions and dealers for the purchase and sale of securities. The Investment Manager is responsible for establishing and maintaining the approved list and will make it available to the College upon request.

10. THIRD-PARTY CUSTODIAL AGREEMENTS

All securities purchased by Polk State College or by its approved Investment Manager under this Policy shall be properly designated as an asset of Polk State College and held in safe keeping by a third-party custodial bank or other third-party custodial institution. If a bank or trust company serves in the capacity of Investment Manager, said bank or trust company could also perform required custodial and reporting services.

No withdrawal of securities, in whole or in part, shall be made from safekeeping except by those designated within the Investment Management and Custodial Agreement between the Custodian and Polk State College.

11. MASTER REPURCHASE AGREEMENT

The Investment Manager will maintain a master repurchase agreement and require all approved institutions and dealers transacting repurchase agreements to adhere to the requirements of the master repurchase agreement.

12. BID REQUIREMENT

Where appropriate, the Investment Manager shall execute purchases and sales in a competitive bid environment wherein at least three (3) offers or bids are obtained for each security. Exceptions to this approach may be made when (1) prices for purchases/sales are compared to systems providing current market prices and deemed reasonable, (2) when the security to be purchased is unique to one institution, or (3) the security has recently been issued and is trading at the same price by all financial institutions.

13. INTERNAL CONTROLS

The Chief Financial Officer of the College (as identified by the President) or his/her designee responsible for making investment decisions will establish a system of internal controls, which will be documented in writing. The College's external auditors will review the system of internal controls periodically. The internal controls will be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of entity.

14. CONTINUING EDUCATION

The Chief Financial Officer (as identified by the President) or his/her designee responsible for making investment decisions shall annually complete 8 hours of continuing education in subjects or courses of study related to investment practices and products.

15. REPORTING

Unless otherwise indicated, the following are the responsibilities expected of the Investment Manager:

- a) Monthly reporting of holdings and transactions occurring in the Fund. This report is to include at least (1) all assets held by the Fund by class/type, book value, approximate market value, income earned, accrued income and (2) all transactions occurring in the Fund during the month.
- b) Quarterly reporting of the Fund's performance: the Investment Manager will report the Fund's total rate of return, which reflects the true earnings of the Fund and incorporates cash flows, changes in market value, and income earned. Calculation of the Fund's total rate of return will comply with the performance measurement standards as defined by the Association of Investment Management and Research (AIMR).

16. INVESTMENT MANAGEMENT AGREEMENTS

This Procedure will be explicitly included in any Investment Management Agreement entered into with a third-party Investment Manager and will contain the signature of the Investment Manager and the President prior to the investment of any funds with the Manager.

History:

Adopted: May 6, 2008
Revised: July 8, 2011; November 7, 2017

	11/23/17		11/23/17
Executive Responsible for Procedure	Date	President's Staff Member's Approval	Date
			11/14/17
President's Approval			Date