PASCO COUNTY, FLORIDA
INVESTMENT POLICY

August 29, 2017

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INVESTMENT POLICY PURPOSE

The purpose of this Investment Policy (hereinafter “POLICY”) is to set forth the investment objectives and parameters for the management of public funds of Pasco County Board of County Commissioners, Florida (hereinafter the “BOARD”). This policy is designed to safeguard the Board’s funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

SCOPE

In accordance with Section 218.415, Florida Statutes, this policy applies to all funds under the control and possession of the Board in excess of those required to meet short-term expenses. The investment of bond proceeds shall be in accordance to the corresponding Bond Resolutions or Trust Indentures. This policy is also applicable to all persons responsible for authorizing and executing investment transactions of such funds.

INVESTMENT OBJECTIVES

<u>Safety of Principal</u>
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 so that potential losses on individual securities do not exceed the income generated from the remainder of the portfolios.

<u>Maintenance of Liquidity</u>
The portfolios 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 to ensure that the portfolios are positioned to provide sufficient liquidity.

<u>Return on Investment</u>
The 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. However, return is attempted through active management where the Investment Manager utilizes a total return strategy (which includes both realized and unrealized gains and losses in the portfolios). This total return strategy seeks to increase the value of the portfolios 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, an Investment 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 portfolios.

PRUDENT PERSON RULE

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 probable income to be derived.

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 an overall portfolios. Investment officers acting in accordance with written procedures and the 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 expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

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.

ETHICAL STANDARDS

All personnel involved in the investment function shall adhere closely to the following:

- All persons authorized to place or approve investments shall not, personally nor through a close relative, maintain any accounts, interests or private dealings, including the incurring of debt, with any broker/dealer or financial institution with which the Board places investments, except for regular savings accounts, checking accounts, money market accounts, or other transactions which are offered on a non-negotiable basis to the general public.
- All persons authorized to place or approve investments shall report to the Board any kinship relations with employees of firms with which the Board places investments.
- Officers and 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.
- Employees and investment officials shall disclose to the Board any material financial interests in financial institutions that conduct business within the County, and they shall further disclose any significant personal financial/investment positions that could be related to the performance of the County portfolios.
- Employees and officers shall subordinate their personal investment transactions to those of the County, particularly with regard to the time of purchases and sales.

DELEGATION OF AUTHORITY

- **Procedures and Internal Controls**

  Management responsibility for the investment program's day-to-day operations is hereby delegated to the Clerk of the Circuit Court and County Comptroller (the "CLERK & COMPTROLLER") who shall establish written procedures for the operation of the investment program consistent with the policy. Such procedures shall include but not limited to: monitoring cash balances; determining amounts recommended for investment, including the use of cash flow estimates provided by the Office of Management and Budget; recommending investment types; coordinating investment activity with financial institutions and broker/dealers; buying and selling securities; maintaining appropriate records; maintaining safekeeping receipts for investments purchased, where necessary; reporting to the Board periodically on investment activity. The Clerk & Comptroller shall also determine and implement appropriate accounting procedures for investment activity and establish a system of internal controls. Internal controls are designed to prevent and control 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. They include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this investment policy and the procedures established by the Clerk & Comptroller.

- **Board Authorization of Investments**

  The Clerk & Comptroller and the Clerk & Comptroller's designees shall be authorized to transact investments of the funds of the Board in accordance with Section 218.415, Florida Statutes and this policy. Consequently, except for investments of surplus funds in the Local Government Surplus Funds Trust Fund, or as authorized by the Florida Interlocal Cooperation Act of 1969, Section 163.01, Florida Statutes, all investments must comply with the parameters stated in the Permitted Investments table in this policy.

  The Board may employ an Investment Manager to assist in managing some of the portfolios. Such Investment Manager must be registered under the Investment Advisers Act of 1940.

- **Custody of Securities**

  The Clerk & Comptroller shall be authorized to establish safekeeping accounts and/or other arrangements for documents as may be necessary within the boundaries of this stated policy (Also, see SAFEKEEPING OF SECURITIES).

- **Cash Forecasts**

  The Clerk & Comptroller is authorized to review annual forecasted cash requirements developed and supplied by the Office of Management and Budget ("OMB") for use in determining appropriate length of investments. OMB shall periodically adjust the annual forecasted cash requirements, as needed, to provide opportunities for maximizing investment results. When such revisions occur, they will be made available to the Clerk & Comptroller on a timely basis.

PORTFOLIO MANAGEMENT (ACTIVE AND PASSIVE)

Active Management of an investment portfolio implies the investing official, occasionally or frequently, will sell some investment securities to shift assets into other vehicles. This may be done simply to rebalance a portfolio that has become over-concentrated in one sector, or it may reflect an effort to enhance total returns by trading or swapping into securities that are expected to outperform the original holding. Active management may be employed to guard against other risks such as liquidity and/or interest rate risk.

This contrasts with the Passive Management technique that involves buy-and-hold purchases that require relatively minimal personal judgment, no particular market timing and the lowest possible administrative and transaction costs.

By using an active investment strategy, rather than one of buy and hold, portfolio yield may be enhanced without an appreciable increase in risk and the portfolio can be rebalanced to adjust for overconcentration in one sector, structure, type or maturity. It should be understood and acknowledged that Active Management is preferred as the buy-and-hold approach may not optimize total return and could involve a sacrifice of yield.

CONTINUING EDUCATION

The Clerk & Comptroller and any other personnel responsible for overseeing investments or designee shall annually complete 8 hours of continuing education in subjects or course of study related to investment practices and products.

MATURITY AND LIQUIDITY REQUIREMENTS

To the extent possible, an attempt will be made to match investment maturities, from the Permitted Investments table in this policy, with known cash needs and anticipated cash flow requirements. 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.

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 Clerk & Comptroller shall determine diversification strategies within the established guidelines.

AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION

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

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the Board. Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the Clerk & Comptroller. The Clerk & Comptroller or Investment Manager shall have the option to further restrict 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. The following requirements do not apply to funds derived from the sale of debt.

TABLE: PERMITTED INVESTMENTS

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement [1]	Maximum Maturity
U.S. Treasury	100%	100%	N/A	5.50 Years (5.50 Years avg. life[3] for GNMA)
GNMA		40%		
Other U.S. Government Guaranteed (e.g. AID, GTC)		10%		
Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB*	75%	40%[2]	N/A	5.50 Years
Federal Agency/GSE other than those above		10%		
Supranationals where U.S. is a shareholder and voting member	25%	10%	Highest ST or Highest LT Rating Categories (A-1/P-1, AAA/Aaa, or equivalent)	5.50 Years
Corporates	35%	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%[2]	N/A	5.50 Years Avg. Life[3]
Asset-Backed Securities (ABS)	25%	5%	Highest ST or LT Rating (A-1+/P-1, AAA/Aaa, or equivalent)	5.50 Years Avg. Life[3]
Non-Negotiable Certificate of Deposit and Savings Accounts	50%	None, if invested with a Qualified Public Depositor	None, if invested with a Qualified Public Depositor	5 Years
Commercial Paper (CP)	25%	5%	Highest ST Rating Category (A-1/P-1, or equivalent)	270 Days
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)	75%	100%	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")	25%	N/A	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, 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 exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.

[3] The maturity limit for MBS and ABS 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).

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) **Supranationals** – U.S. dollar denominated debt obligations of a multilateral organization of governments where U.S. is a shareholder and voting member.

4) **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.

5) **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.

6) **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.

7) **Asset-Backed Securities** – Asset-backed securities (ABS) whose underlying collateral consists of loans, leases or receivables, including but not limited to auto loans/leases, credit card receivables, student loans, equipment loans/leases, or home-equity loans.

8) **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.

9) **Commercial Paper** – U.S. dollar denominated commercial paper issued or guaranteed by a domestic corporation, company, financial institution, trust or other entity, only unsecured debt permitted.

10) **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 Board's custodial account or in a separate account in the name of the 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.

11) **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. Appendix 1 is 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) **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. Appendix 1 is 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.

13) **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. Appendix 1 is 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.

GENERAL INVESTMENTS 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 Manager will notify the Clerk & Comptroller within two business days with recommendations to follow within a reasonable amount of time to minimize loss of principle value.
    e. The maximum maturity (or average life for MBS/ABS) 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. 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
3. 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(a)(2) exemption from registration
    g. Convertible, high yield, and non-U.S. dollar denominated debt
    h. Short sales
    i. Use of leverage
    j. Futures and options
    k. Mutual funds, other than money market funds
    l. Equities, commodities, currencies and hard assets

MASTER REPURCHASE AGREEMENT

The County will require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Securities Industry and Financial Markets Association (SIFMA) Master Repurchase Agreement. All repurchase agreement transactions will adhere to requirements of the SIFMA Master Repurchase Agreement.

AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

Only firms meeting one of the following requirements shall be eligible to serve as Qualified Institutions:

1. Non-Primary Dealers and investment institutions which are designated as Primary Dealers by the Federal Reserve Bank of New York (source of information: http://www.newyorkfed.org/markets/pridealers_current.html).

   The firm must comply with all of the following requirements.

   a. Primary and regional dealers that qualify under Securities and Exchange Commission Rule 15 C3-1 (uniform net capital rule);
   b. Capital of no less than $10,000,000;
   c. Registered as a dealer under the Securities Exchange Act of 1934;
   d. A member of the Financial Industry Regulatory Authority, Inc. (FINRA);
   e. Registered to sell securities in Florida; and
   f. The firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years; or,

2. Public Depositories qualified by the Treasurer of the State of Florida, in accordance with Chapter 280, Florida Statutes. A listing of the Qualified Public Depositories is available at https://apps8.fldfs.com/CAP_Web/PublicDeposits/ActiveQPDDisplayList.aspx)

3. Qualified Public Depositories may provide the services of a securities dealer through a Section 20 subsidiary of the financial institution.

4. Direct issuers of commercial paper.

The Investment Manager shall utilize and maintain its own list of approved primary and non-primary dealers using the criteria listed under Authorized Investment Institutions and Dealers.

DELIVERY V. PAYMENT

All securities transactions of the County shall be conducted on a "DELIVERY V. PAYMENT" basis. Simultaneous with the release of County funds to purchase a security, there will be a delivery of the security purchased. Accordingly, for any sale of a security, there will be a simultaneous transfer of funds to the County before the release of the security. This procedure ensures that the County neither transfers funds or securities before receiving the reciprocal portion of the transaction. Transfers will occur simultaneously through a custodial bank authorized to conduct transactions on behalf of the County.

Delivery in or out of safekeeping with a Federal Reserve Bank will be completed simultaneously.

COLLATERALIZATION

Collateral for public deposits is controlled by the State of Florida through Chapter 280, Florida Statutes. The County shall not be under any obligation to secure additional collateral beyond the provisions of Chapter 280, except in the case of Repurchase Agreements.

In addition to the collateralization requirements for Repurchase Agreements contained in this policy, collateral requirements for Repurchase Agreements shall be contained in the Master Repurchase Agreement executed between the County and the broker/dealer or financial institution. The actual collateral requirements will be based on economic and financial conditions existing at the time of execution, as well as the credit risk of the broker/dealer or financial institution which enters into the Repurchase Agreement with the County**.** Generally, the broker/dealer or financial institution may substitute equal value securities for any pledged securities only with the written consent of the County and, at all times, the aggregate value of such securities shall be marked to market.

At no time will the collateral (margin ratios) be less than **102%** of the original investment plus accrued interest.

SAFEKEEPING OF SECURITIES

To protect against potential fraud and embezzlement, the investment securities of the County shall be secured through third-party custody and safekeeping procedures. Sections 218.415(18)(a) and (b), Florida Statutes, state:

(a) Every security purchased under this section on behalf of the governing body of a COUNTY shall be properly earmarked and:

1. If registered with the issuer or its agents, must be immediately placed for safekeeping in a location that protects the governing body's interest in the security or with Custodian Bank(s);
2. 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, or any other state or territory of the United States which has a branch or principal place of business in this state as defined in s. 658.12, or by a national association organized and existing under the laws of the United States wh1ch is authorized to accept and execute trusts and which is doing business in this state, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or
3. 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.

(b) The unit of local government's governing body 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, this state, or any other state or territory of the United States which has a branch or principal place of business in this state as defined ins. 658.12, 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 this stale.

Certificates of deposit and other time deposits do not require safekeeping with a third-party custodian since all such deposits may only be transacted with Qualified Public Depositories under Chapter 280, Florida Statutes; collateral for such deposits is protected and under the control of Chapter 280, Florida Statutes.

Investments held in custody and safekeeping by a Federal Reserve Bank will qualify as third-party safekeeping.

As noted in the pro-forma Custodial Agreement, all securities purchased by, and all collateral obtained by the County should be properly designated as an asset of the County when appropriate arrangements are made for the holding of County assets by third parties. No withdrawal of securities, in whole or in part, shall be made from safekeeping, except by authorized personnel of the governmental unit.

THIRD-PARTY CUSTODIAL AGREEMENTS

All 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 County should be properly designated as an asset of the County. 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 maintained by book-entry at the issuing bank shall clearly identify the County as the owner.

The Board shall execute third-party custodial agreement(s) with its bank(s) and depository institution(s). Such agreements may include letters of authority from the County, details as to the responsibilities of each party, method of notification of security purchases, sales, delivery procedures related to repurchase agreements and wire transfers, safekeeping and transaction costs, procedures in case of wire failure or other unforeseen mishaps and describing the liability of each party.

The custodian shall accept transaction instructions only from those persons who have been duly authorized by the County and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be permitted from safekeeping unless by a duly authorized person.

The third-party custodian shall provide the Clerk & Comptroller 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.

DIVERSIFICATION

The County will diversify its investments by security type, institution and maturities to reduce the portfolios risk while attaining acceptable rates of return. The Permitted Investments in this policy addresses these diversification considerations.

Diversification strategies within the established guidelines shall be reviewed and revised periodically, as deemed necessary.

PERFORMANCE MEASUREMENTS

To assist in the evaluation of the portfolios' performance, the Investment Steering Committee will use performance benchmarks for short-term and long-term portfolios, which will allow measurement of its returns against other investors in the same markets. Examples of these benchmarks include:

A. The short-term investment portfolio (portfolio with maturities 12 months and less) shall be designed with the annual objective of exceeding the weighted average return (net book value rate of return) of the S&P Rated GIP Index Government 30-Day Gross of Fees Yield.

B. The long-term investment portfolio shall be designed with the annual objective of exceeding the return of the Bank of America Merrill Lynch 1-3 Year U.S. Treasury/Agency Index compared to the portfolio's total rate of return. The Bank of America Merrill Lynch 1-3 Year U.S. Treasury/Agency Index represents all U.S. Treasury securities maturing over one year, but less than three years. This maturity range is an appropriate benchmark based on the objectives of the Board.

The appropriate index will have a duration and asset mix that approximates the portfolios and will be utilized as a benchmark to be compared to the portfolios yield to worst at cost and/or total rate of return (if applicable).

INVESTMENT MANAGER REPORTING REQUIREMENTS

The Investment Manager shall provide the Clerk & Comptroller and Investment Steering Committee with at least quarterly investment reports. Schedules in the quarterly report should include the following:

A. A listing of individual investments held at the end of the reporting period
B. Coupon, discount, or rate of return (to be reported gross and net of fees)
C. Final maturity date on all investments
D. Book value and market value
E. Income earned (to be reported gross and net of fees)
F. Financial institutions or broker/dealer
G. Yield to worst

On an annual basis, the Investment Manager shall prepare and submit to the Clerk & Comptroller a written report on all invested funds. The annual report shall provide all, but not limited to, the following: a complete list of all invested funds, name or type of security in which

the funds are invested, the amount invested, the maturity date, earned income, the book value, the market value, and the yield on each investments.
The annual report will show performance on both a book value and total rate of return (if applicable) basis when required and will compare the results to the above-stated performance benchmarks. All investments shall be reported at fair value per GASB standards. Investment reports shall be available to the public.

PASCO COUNTY CLERK & COMPTROLLER REPORTING REQUIREMENTS

To provide appropriate performance measures, the Clerk & Comptroller will prepare and deliver to the Board a quarterly report of investment activity. This report will contain the following minimum level of information regarding the portfolios:

- Amount of each investment
- Type of investment and percentage share of total portfolios
- Financial institution or broker/dealer
- Purchase and sale dates (trade and settlement)
- Maturity date
- Yield
- Income received, accrued or prepaid (total and by fund)

SYSTEM OF INTERNAL CONTROLS AND OPERATIONAL PROCEDURES

The Clerk & Comptroller shall establish a system of internal controls which shall be in writing and made part of the 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, collateral/depository agreements, and delivery v. payment procedures. No person may engage in an investment transaction except as authorized under the terms of this policy.

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

COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

After the Clerk & Comptroller or the Investment Manager 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 investments in question. Bids will be held in confidence until the bid deemed to best meet the investment objectives is determined and selected.

However, if obtaining bids/offers are not feasible and appropriate, investments 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 the following:

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 COUNTY'S third-party custodian or its correspondent institutions

Examples of when this method may be used include the following:

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

Overnight sweep investments will not be bid, but may be placed with the County's depository bank relating to the demand account for which the repurchase agreement was purchased.

RESERVATION OF AUTHORITY

The Clerk & Comptroller shall review the Policy annually. The authority to issue and/or revise this policy is reserved for the Board.

GLOSSARY OF CASH MANAGEMENT TERMS AND INVESTMENT TYPES

Accrued Interest – The accumulated interest due on a bond as of the last interest payment made by the issuer.

Agency – A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

Amortization – The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

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 – A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

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.

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 (noncallable) 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 S4 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.

Bid – The indicated price at which a buyer is willing to purchase a security or commodity.

Bond Market Association (BMA) – 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 BMA also recommends bond market closures and early closes due to holidays.

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 security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

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 – onetime 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 Bond – A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price – The price at which an issuer may redeem a bond prior to maturity.

Call Risk – The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Sale/Purchase – A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

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 the purpose of 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 – An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

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 – The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

Credit Quality – The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability and willingness to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized statistical rating agencies.

Credit Risk – The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield (Current Return) – A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

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 own account.

Delivery Versus Payment (DVP) – A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

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 – For hedging purposes, common derivatives are options, futures, swaps, and swaptions. All Collateralized Mortgage Obligations ("CMOs") are derivatives. (I) 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)

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 S1 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.

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 the par value of a security exceeds the price paid for the security.

Diversification – A process of investing assets among a range of security types by sector, maturity, structure and quality rating.

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 'A, would have a principal cost of 5955 per 51,000 of face value.

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

Duration – A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Fair Value – The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fannie Mae – See "Federal National Mortgage Association."

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 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. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

Federal Funds Rate – Interest rate charged by one institution lending federal funds to another.

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.

Financial Industry Regulatory Authority, Inc. (FINRA) – is 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.

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.

Freddie Mac – See "Federal Home Loan Mortgage Corporation".

Ginnie Mae – See "Government National Mortgage Association".

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 is actually full faith and credit of the U.S.).

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, and Bonds."

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. Some consider GSEs to be stealth recipients of corporate welfare. 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 (JO) 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.

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.

Interest Rate – See "Coupon Rate."

Interest Rate Risk – The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Internal Controls – An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance 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** – By separating the person who authorizes or performs the transaction from the person(s) who record or otherwise account for the transaction, a separation of duties is achieved.
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 dependent upon the various staff positions and their respective responsibilities.

6. **Written confirmation of transactions for investments and wire transfers** – Due to the potential for errors 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.

Inverted Yield Curve – A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

Investment Company Act of 1940 – Federal legislation which 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 Obligations – An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB/Baa or higher by a nationally recognized statistical rating agency.

Liquidity – An asset that can be converted easily and quickly into cash.

Local Government Investment Pool (LGIP) – An investment by local governments in which their money is pooled as a method for managing local funds.

Mark-to-market – The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk – The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value – Current market price of a security.

Master Repurchase Agreement – A widely accepted standard agreement form published by the Bond Market Association (BMA) that is used to govern and document Repurchase Agreements and protect the interest of parties in a repo transaction.

Material Financial Interest – A person has a material financial interest if the person has, directly or indirectly through business, investment or family member:

1. An ownership, investment or other interest in any entity with which Pasco County is negotiating a contract, transaction or arrangement;
2. A compensation arrangement with any person or entity with which Pasco County has or is negotiating a contract, transaction or arrangement;
3. A potential ownership, investment, compensation or other interest, with any person or entity with which Pasco County is negotiating a contract, transaction or arrangement.

For purposes of this policy, (i) "compensation" includes all forms of compensation and gifts, entertainment or other favors that are not insubstantial, (ii) "other interest" includes serving as an officer, director, trustee or representative (with or without compensation) of a third party,

Maturity – The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity."

Moody's Investors Service – One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Money Market Mutual Fund – Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repurchase agreements, and federal funds).

Mortgage Backed Securities (NIBS) – 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 FI-ILMC. There are a variety of MBS structures, some of which can be very risky and complicated. 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. Largest issuer is GNMA.

Mutual Fund – An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
    a. Value their portfolios on a daily basis.
5. Have all individuals who sells SEC-registered products licensed with a self-regulating organization
6. (SRO) such as the Financial Industry Regulatory Authority, Inc. (FINRA).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

Mutual Fund Statistical Services – Companies that track and rate mutual funds, e.g., IBC/Donoghue, Lipper Analytical Services, and Morningstar.

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, which includes securities, cash, and any accrued earnings, subtracting from this 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)

No Load Fund – A mutual fund which does not levy a sales charge on the purchase of its shares.

Nominal Yield – The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

NRSRO – A "Nationally Recognized Statistical Rating Organization." 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.

Offer – An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

Open Market Operations – 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 – Face value or principal value of a bond at maturity, typically $1,000 per bond.

Physical Delivery – Delivery of readily available underlying assets at contract maturity.

Portfolio – Collection of securities and investments held by an investor.

Positive Yield Curve – A chart formation that illustrates short-term securities having lower yields than long-term securities.

Premium – The amount by which the price paid for a security exceeds the security's par value.

Primary Dealer – Any of a group of designated government securities dealers designated by to 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 considered the largest players 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.

Prime Rate – A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

Principal – The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prospectus – A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

Prudent Person Rule – An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

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 – Chapter 280, Florida Statutes means any bank, saving 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 seq.
4. Meets all requirements of Chapter 280, Florida Statutes.
5. Has been designed by the Treasurer as a qualified public depository.

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.

Regular Way Delivery – Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on aT+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.

Reinvestment Risk – The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same interest rate of return currently generated by that holding.

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 Securities Industry and Financial Markets Association (SIFMA) 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.

Rule 2a-7 of the Investment Company Act – Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13 month maturity limit and a 60 day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

Safekeeping – Holding of assets (e.g., securities) by a financial institution.

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.

Serial Bond – A bond issue with various maturity dates scheduled at regular intervals until the entire issue is retired.

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.

Supranational – Supranational organizations are international financial institutions that are generally established by agreements among nations, with member nations contributing capital and participating in management. These agreements provide for limited immunity from the laws of member countries. Bonds issued by these institutions are part of the broader class of Supranational, Sovereign, and Non-U.S. Agency (SSA) sector bonds. Supranational bonds finance economic and infrastructure development and support environmental protection, poverty reduction, and renewable energy around the globe. For example, the World Bank, International Finance Corporation (IFC), and African Development Bank (AfDB) have "green bond" programs specifically designed for energy resource conservation and management. Supranational bonds, which are issued by multi-national organizations that transcend national boundaries. Examples include the World Bank, African Development Bank, and European Investment Bank.

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.

Term Bond – Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

Total Return – The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation)+ (Dividends paid)+ (Capital gains)= Total Return

Treasury Bills – Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Notes – Intermediate U.S. government debt securities with maturities of one to ten years and issued in denominations ranging from $1,000 to $1 million or more.

Treasury Bonds – Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of $1,000. Currently, the longest outstanding maturity for such securities is 30 years.

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 outlining capital requirements for 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."

Volatility – A degree of fluctuation in the price and valuation of securities.

"Volatility Risk" Rating – A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns ("aaa" by S&P; "V-1" by Fitch) to those that are highly sensitive with currently identifiable market volatility risk ("ccc-" by S&P, "V-10" by Fitch).

Weighted Average Maturity (WAM) – The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 60 days and no one security may have a maturity that exceeds 397 days.

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.

When Issued (WI) – A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

Yield – The current internal rate of return on an investment security generally expressed as a percentage of the security's current price.

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) – The internal rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date. Yield Curve - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

Yield-to-maturity – The internal rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

Zero-coupon Securities – Security that is issued at a discount and makes no periodic interest payments. The internal rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

INVESTMENT TYPES

United States Treasury Bills
Treasury bills are direct obligations of the federal government. They are issued on a discount basis (sold at less than par) for a term of one year or less. Original issue bills have maturities of 13 weeks, 26 weeks or 52 weeks. Treasury bills are paid at face value at maturity. Income amounts to the difference between purchase price and sale price. Treasury bills are a primary liquidity investment for most investors. The volume of trading in this instrument is huge and Treasury bills may be readily bought and sold. As in all debt instruments, the market value of Treasury bills in a portfolio will rise with falling market rates and fall with rising market rates.

United States Treasury Notes
This is an interest bearing direct obligation of the United States Government with an original maturity of 1 to 10 years. Treasury notes are issued in both book-entry and registered form. The minimum purchase amount is $1,000. Treasury notes are quoted as a percentage of par to the nearest 1/32nd. Original issues are normally for 2, 3, 4, 5, 7 and 10 year maturities. Interest is calculated on a 365-day year basis. Interest is paid semi-annually.

United States Government Agencies
A wide variety of securities are issued under the general sponsorship of the United States Government by agencies or programs created by Congress. In general, these securities are not direct obligations of the United States Government. These securities can be divided into two major categories - regular and mortgage-backed. A review of features of more widely traded securities follows.

Federal Farm Credit Banks (FFCB) Discount Notes
These notes are obligations of privately owned, government-sponsored Federal Farm Credit Banks. The proceeds of these notes are used to make loans to farmers, ranchers and businesses serving them. FFCB discount notes are originally issued in maturities of 5 to 360 days. The notes are the joint obligations of 12 Farm Credit Banks and are backed by collateralized loans. The minimum note purchase is $50,000. These notes are issued in

book entry form only at a discount and are paid at par at maturity. Price and yield calculations are identical to Treasury bills. There is an active secondary market.

Federal Farm Credit Banks (FFCB) Debentures
These debentures are fixed rate obligations of 12 Federal Farm Credit Banks and are secured by collateralized loans. They are issued in maturities of 3 and 6 months. FFCB debentures are issued in book-entry form only and pay interest at maturity through the Federal Reserve Bank system. The minimum purchase amount is $10,000. These bonds are quoted as a percentage of par to the nearest 1/32nd. There is an active secondary market.

Federal Home Loan Bank (FHLB) Discount Notes
These notes are short term discount obligations of the privately owned government sponsored Federal Home Loan Bank System. They are obligations of the 12 Federal Home Loan Banks and are secured by collateralized advances to thrift institutions. FHLB discount notes have an original maturity of 30 to 60 days and are payable at par at maturity. The minimum purchase amount is$100,000. Price and yield calculations are identical to Treasury bills. These notes are sold in book entry form only. Secondary market is active.

Federal Home Loan Bank (FHLB) Bonds
These bonds have an original maturity of 1 to 10 years. They are obligations of 12 Federal Home Loan Banks and are secured by collateralized advances to thrift institutions. FHLB bonds are issued in book-entry only. Interest is paid semi-annually through the Federal Reserve Bank System. Interest is calculated on a 360-day year basis. The minimum purchase amount is $10,000. FHLB bonds are quoted as a percentage of par to the nearest 1/32nd.

Federal National Mortgage Association (FNMA) Discount Notes
These notes are short term discount obligations of the privately owned; government sponsored Federal National Mortgage Association Corporation. FNMA discount notes are obligations to the Federal National Mortgage Association and are secured by mortgage loans. The original maturity on these notes is from 30 to 360 days. The minimum purchase amount of FNMA discount notes is $50,000. The notes are payable at par at maturity. Price and yield calculations are identical to Treasury bills. FMNA discount notes are issued in book-entry form only. Secondary market is active.

Federal National Mortgage Association (FNMA) Debentures
These debentures have original maturities of 6 months to 30 years. They are obligations of the Federal National Mortgage Corporation and are secured by mortgage loans. The minimum purchase amount is $10,000. FNMA debentures are interest bearing. Interest is calculated on a 360-day year basis and is paid semi-annually through the Federal Reserve Bank system. These debentures are issued in book entry only. They are quoted as a percentage of par to the nearest 1/32nd.

Student Loan Marketing Association (SLMA) Discount Notes
These notes are short-term discount obligations of the privately owned; government sponsored Student Loan Marketing Association ("Sallie Mae"). They have maturities of 5 to 360 days and are redeemable at par at maturity. The minimum purchase amount is $100,000. They are issued in book-entry form. They have a moderately active secondary market.

Student Loan Marketing Association Floating Rates Notes (FRN)
These notes are short-term obligations of Sallie Mae. They have a 6 month maturity. The interest coupon resets weekly at a fixed spread to the bond equivalent yield of the 3-month Treasury bill. Principal and interest are paid at maturity. The minimum purchase amount is $10,000. The secondary market is active.

United States Treasury Bonds
These securities are fully guaranteed by the United States government and have original maturities of over 10 years. They are interest bearing and pay interest semi-annually. They are quoted as a percentage of par to the nearest 1/32nd. United States Treasury bonds are issued in book entry and registered form.

Mortgage Backed Securities
The following organizations issue mortgage backed securities:

- Government National Mortgage Association (GNMA)
- Federal Home Loan Mortgage Corporation (FHLMC)
- Federal National Mortgage Association (FNMA)

These securities are backed by pools of mortgages. As the mortgages are paid down, the principal of the securities are reduced. Both principal and interest are distributed to the investor periodically. These securities are backed by the issuing agency and the underlying pool of mortgages. Issues of the Government National Mortgage Association are backed by the full faith and credit of the United States Government.

Certificates of Deposit
A certificate of deposit (CD) is a receipt for funds deposited in a bank for a specified period of time at a specified rate of interest. The owner of the CD at the time of its maturity receives both principal and interest. CDs have no interest rate limitations. The minimum maturity for a CD is 7 days. The minimum deposit varies by institution.

Repurchase Agreements (Repos)
Repos involve the sale of a specified security to an investor by a bank or dealer with a commitment on their part to repurchase the securities on a specified date at the same price plus a stipulated interest charge. As an additional safeguard, repos are purchased only at certain banks and dealers.

Mutual Fund
A mutual fund is an open-end or closed-end investment company registered with the Securities and Exchange Commission (SEC).

Mutual funds sell shares (units representing an equal, undivided interest in the fund) to investors or shareholders. The proceeds of these sales are pooled and used to invest in specific types of securities to achieve a defined investment objective. For example, a fund may invest solely in money market instruments such as highly liquid U.S. Treasury securities. Or, a fund may invest in long-term (greater than one year) municipal debt or in the equities of corporations.

Florida Local Government Investment Trust (FL TRUST)
The creation of the FL TRUST was co-sponsored by the Florida Association of Counties and the Florida Association of Court Clerks/Comptrollers; both organizations are jointly responsible for the appointment of the FL TRUST's trustees. The FL TRUST was organized to permit participating local governments to pool surplus public funds in order to provide a favorable rate of return while maintaining safety of principal. The FL TRUST investment policy limits its authorized investments to those of the highest credit quality: treasuries, agency securities and instrumentalities, and other securities collateralized with Treasury/agency securities. Trust investments are limited to securities having a maximum effective maturity of five years from the date of purchase.

Appendix 1 - 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. Does the pool have a stable net asset value or floating net asset value?

4. What are the liquidity gates?

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

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

7. A schedule for receiving statements and portfolio listings.

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

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

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