

# **FL SAFE Variable NAV Fund**

## **Investment Policy**

November 1, 2017

### **I. PURPOSE AND OBJECTIVES STATEMENT**

#### **A. PURPOSE**

This investment policy statement should be read in conjunction with the Florida Surplus Asset Fund Trust Information Statement.

The purpose of this investment policy statement, which has been established by the Board of Trustees, is to provide a written summary of investment objectives and policies for the Florida Surplus Asset Fund Trust (the "FL SAFE") Variable NAV Fund ("the Fund") that incorporates all restrictions and requirements as prescribed in such pertinent resources as the State of Florida statutes, FL SAFE's Indenture of Trust and the rating agency's requirements for awarding an AAAs and S1 rating to the Fund. This statement shall be used as a guideline by any investment manager investing the assets of the Fund and by the Board of Trustees in overseeing the operations of the Fund. The Trust has also adopted an investment policy for the Stable NAV Fund Series and the Term Series that are separate and distinct from this investment policy for the Variable NAV Fund.

The purpose of the FL SAFE Variable NAV Fund is to offer an investment alternative to governments in the State of Florida ("Participants") that have excess funds with an investment horizon greater than that of money market instruments and that seek potential returns greater than those of money market instruments and the FL SAFE Stable NAV Fund Series. The Variable NAV Fund will generally invest in securities with higher risk compared to money market instruments and the FL SAFE Stable NAV Fund Series.

#### **B. OBJECTIVES**

The Variable NAV Fund seeks to provide current income while maintaining limited price volatility. The Variable NAV Fund will invest in a diversified portfolio of short-term, investment-grade fixed-income securities selected by the Investment Advisor. The Variable NAV Fund will invest solely in Permitted Investments (defined below) by the Investment Advisor. The Variable NAV Fund is expected to be invested in such a manner as to result in an average dollar weighted maturity for the portfolio that does not exceed two (2) years and expects a target duration of approximately one (1) year. The Variable NAV Fund will seek to preserve capital while offering enhanced opportunities to generate income relative to the AAAs rated FL SAFE Stable NAV Fund or similar money market fund or other local government investment pool. In contrast with the FL SAFE Stable NAV Fund, the net asset value of the Variable NAV Fund will fluctuate as the market value of the securities in the portfolio changes over time, and the net asset value of a Participant's investment could decline below the amount originally invested by the Participant. A Participant that cannot bear this risk should not invest in the Variable NAV Fund.

## **II. OVERVIEW OF GUIDELINES**

### **A. PERMISSIBLE INVESTMENTS**

The FL SAFE Variable NAV Fund may invest in the following types and categories of investments:

1. Direct obligations of the United States Treasury;
2. Obligations backed by the full faith and credit of the United States government;
3. Obligations of agencies and instrumentalities of the United States government including mortgage-backed securities;
4. Certificates of deposit and other evidences of deposit with approved financial institutions;
5. Bankers' acceptances;
6. Commercial paper and other corporate obligations;
7. Asset-backed securities;
8. Obligations of state and local governments and public authorities;
9. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities;
10. Repurchase agreements whose underlying purchased securities consist only of the instruments listed in categories 1 through 8 above ; and
11. Without limiting the foregoing, any investments authorized under Section 218.415(16), Fla. Stat.

The Trust may participate in a securities lending program approved by the Board of Trustees.

### **B. RATINGS REQUIREMENTS**

All investments of the Variable NAV Fund shall be rated in the three highest long-term rating tiers by a nationally recognized rating agency or in the highest short-term rating tier by a nationally recognized rating agency at the time of purchase, except for asset-backed securities, which shall be rated in the highest long-term rating tier by a nationally recognized rating agency or in the highest short-term rating tier by a nationally recognized rating agency at the time of purchase.

### **C. S&P CRITERIA**

The FL SAFE Variable NAV Fund follows the investment criteria for a AAAs and S1 S&P rated Bond Fund.

## **C. STANDARD OF CARE**

### **1. Prudence**

FLSAFE's investments are made subject to the "prudent person" standard of care. According to the Government Finance Officers Association, the "prudent person" standard states that "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

### **2. Ethics and Conflicts of Interest**

Agents, advisors, and contractors providing services in connection with custody, management, and investment of public funds under a contract with the Board of Trustees are required to at all times avoid any actual or apparent conflict of interest with respect to the custody, management, and investment of public funds.

## **III. PROHIBITED INVESTMENTS**

### **A. SECURITY TYPES**

FLSAFE cannot invest in the following:

1. Asset backed commercial paper securities that are classified as structured investment vehicles (SIV), collateralized debt obligations (CDO), structured arbitrage vehicles (SAV) or extendible commercial paper.
2. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
3. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.

### **B. DERIVATIVES**

In addition to the list of Prohibited Investments, set forth above, the Funds may not invest in "derivatives." When used herein, the term "derivatives" refers to (i) instruments with embedded features that alter their characteristics or income stream or allow holders to hedge or speculate on a market or spreads between markets that are external to the issuer of such instruments, or (ii) instruments which are not directly correlated on a one-to-one basis to the associated index or market.

## **IV. INVESTMENT RESTRICTIONS**

The Series investments are subject to the restrictions listed below. These restrictions are fundamental policies of the Trust, which means that they cannot be changed without the affirmative vote of a majority of the Funds' Participants. The Variable NAV Fund:

- (a) may not make any investment other than investments authorized by the Indenture of Trust and the Board authorized Permitted Investments List, as the same may be amended from time to time;
- (b) may not borrow money or incur indebtedness whether or not the proceeds thereof are intended to be used to purchase Permitted Investments, except as a temporary measure to facilitate withdrawal requests which might otherwise require unscheduled dispositions of portfolio investments and only as and to the extent permitted by Law;
- (c) may not make loans, provided that the Funds may make Permitted Investments (which may include securities lending);
- (d) may not hold or provide for the custody of any Fund Property in a manner not authorized by Law or by any institution or Person not authorized by Law; and
- (e) may not purchase securities or shares of investment companies or any entities similar to the Funds.

## **V. MISCELLANEOUS**

### **A. BEST EXECUTION**

FLSAFE trades, purchases, and sales are to be done on a best execution basis consistent with the requirements of the Securities and Exchange Commission.

### **B. AUTHORIZED PERSONNEL**

The Investment Advisor's personnel authorized to buy and sell investment instruments, send and receive securities, and make fund transfers and other types of related investment transactions are directly supervised by senior investment management personnel of the Investment Advisor.

### **C. DOCUMENTATION**

Complete documentation and audit trails are to be maintained for all investment transactions.

### **D. AUDIT**

The Variable NAV Fund shall be part of the Trust's annual audit by its independent certified

public accountants.

**E. PERIODIC REVIEW OF INVESTMENT POLICY**

The Board of Trustees shall review this Investment Policy on a periodic basis.

Dated: November 1, 2017