

# Florida Surplus Asset Fund Trust (FLSAFE)

## Investment Policy

January 18, 2013

### I. PURPOSE AND OBJECTIVES STATEMENT

#### A. ORGANIZATION

The Florida Surplus Asset Fund Trust (“FLSAFE”) is a local government investment pool organized pursuant to Sections 163.01 and 218.415, Florida Statutes. FLSAFE was created under an Indenture of Trust dated December 11, 2007 and is governed by a participant controlled Board of Trustees. The Board of Trustees may contract with an administrator, investment advisor (the “Advisor”) or other professional service providers for the benefit of FLSAFE. Assets shall be held in a trust custody account at an authorized banking institution (the “Custodian”).

#### B. PURPOSE

The purpose of FLSAFE is to offer a safe, efficient and liquid investment alternative to governments in the State of Florida (“Participants”) and that may benefit from the receipt of higher investment returns as a result of economies of scale and investment expertise. Investments shall be made in accordance with this investment policy (the “FLSAFE Investment Policy”) established by the Board of Trustees.

#### C. OBJECTIVES

The primary objectives, in priority order, shall be safety, liquidity, transparency and yield

##### 1. Safety

Safety of principal is the foremost objective of FLSAFE. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The goal will be to limit credit risk and interest rate risk through portfolio structure.

##### Credit Risk

FLSAFE shall limit credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section II of this Investment Policy and by following the guidelines to maintain a AAAM rating from Standard & Poor’s (S&P) or

its equivalent.

- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which FLSAFE will do business in accordance with Section IV.
- Diversifying the investment portfolio, according to the AAAM rating guidelines, so that the impact of potential losses from any one type of security or from any one individual issuer will be contained.

### Interest Rate Risk

FLSAFE shall limit interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Following the maturity restrictions under the guidelines that result in maintaining a AAAM credit rating.

## **2. Liquidity**

Cash needs and cash expectations are considered in the development and structure of the FLSAFE portfolio. Participant contributions and redemptions are to be monitored regularly and the portfolio shall be constructed to maintain adequate liquidity based on historical patterns. FLSAFE will follow rating agency guidelines consistent with a AAAM rating concerning such factors as limits on illiquid investments and maximum maturity.

## **3. Transparency**

FLSAFE will provide Participants with information and any other resources to make informed investment decisions and to communicate the operations and investment activities in a timely manner. The primary goal of transparency is to create a trusting environment for the Participants.

## **4. Yield**

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout economic cycles, taking into account its investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety, liquidity and transparency objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold prior to maturity to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

The benchmark for FLSAFE will be the Standard & Poor's Rated Government Investment Pool index.

## **D. NET ASSET VALUE MONITORING POLICY**

As a normal operating activity, the portfolio securities of FLSAFE will be priced at least weekly by a third party pricing entity and the Net Asset Value (NAV) will be calculated. In order to maintain \$1.00 share, the market price NAV must remain between \$0.9950 and \$1.0050. The following describes monitoring activities, disclosure and potential actions given NAV price changes:

- NAV is between .9975 and 1.0025

This is normal operating condition. The Advisor shall price the portfolio weekly. No special action or disclosure is required.

- NAV falls below .9975 or rises above 1.0025

The Advisor will notify the Board of Trustees and the Administrator and review the causes and effects for the price change and outline possible actions. In addition, the Advisor will communicate to rating agencies and discuss possible actions. Participants will be notified and provided details of this situation.

- NAV falls below .9960 or rises above 1.0040

An assessment of the causes of the price change will be delivered to the Board of Trustees and the Administrator. Upon meeting with the Board of Trustees and the Administrator, a recommendation and potential actions will be identified. Participants will be notified and provided details of the situation. These actions may include:

1. Review and analyze the cause for the price change.
2. Evaluate the suspension of management fees and/or expenses.
3. Evaluate the benefits of selling securities at either a profit or loss.

## **E. 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.

### **3. Safekeeping and Custody**

#### Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are delivered with the Custodian prior to the release of funds.

#### Custody

Securities will be held by an independent third-party custodian selected by the Board of Trustees.

#### Internal Controls

The Advisor is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of FLSAFE are protected from loss, theft or misuse. The Advisor shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the Board of Trustees, where present, and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, or negligent actions by employees and officers of the Advisor.

## **II. PERMITTED INVESTMENTS**

FLSAFE funds may be invested only in the following permitted investments and authorized in the Indenture of Trust.

### **A. AUTHORIZED INVESTMENTS**

#### Investment Types

The Trust 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, including bonds issued under the Temporary Liquidity Guarantee Program;
3. Obligations of agencies and instrumentalities of the United States government rated in the highest rating category by a nationally recognized rating agency;
4. Certificates of deposit and other evidences of deposit with approved financial institutions;
5. Bankers' acceptances rated in the highest rating tier by a nationally recognized rating agency;
6. Commercial paper and other corporate obligations, which mature not more than 397 days from the date of purchase, rated in the highest rating tier by a nationally recognized rating agency;
7. Obligations of state and local governments and public authorities rated in the two highest rating tiers by a nationally recognized rating agency;

8. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities;
9. Repurchase agreements whose underlying purchased securities consist only of the instruments listed in categories 1 through 8 above; and
10. Without limiting the foregoing, any investments authorized under Section 218.415(16), Florida Statutes.

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

### **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.
4. Collateralized mortgage obligations.

#### **B. DERIVATIVES**

FLSAFE may not invest in “derivatives.” For purposes of this Investment Policy, “derivatives” means 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, or are not directly correlated on a one-to-one basis to the associated index or market. Derivatives include, but are not limited to, the following:

1. Arrangements in which an investor has swapped the natural cash flows or some portion of the natural cash flows of an instrument for a different set of cash flows (*i.e.*, interest rate swaps).
2. Over-the-counter/exchange traded options or futures (*i.e.*, option contracts, futures contracts).
3. Inverse floating rate notes, range index notes, non-money market index based notes, dual index notes, index amortizing notes, inverse multi-index bonds, stepped inverse indexed bonds, inverse index bonds.

Securities that are not considered derivatives and that are authorized investments for FLSAFE include, but are not limited to:

1. Treasury Bills, Treasury Notes, Treasury Bonds, Treasury Strips, Treasury Inflation Protected Securities, repurchase agreements, U.S. agency notes with a defined maturity and fixed coupon rate, U.S. agency discount notes, money market index variable rate notes (*i.e.*, floating rate notes tied to money market indices such as three and six month Treasury Bills; one, three, and six month London Interbank Offering Rate [LIBOR]; Fed Funds; one year Constant Maturity Treasury; prime rate; and commercial paper composite); U.S. step-up notes and any authorized investment that is callable prior to its final maturity.

## **IV. AUTHORIZED FINANCIAL INSTITUTIONS**

### **A. AUTHORIZED FINANCIAL INSTITUTIONS AND DEPOSITORIES**

The Advisor will maintain a list of financial institutions authorized to provide investment or financial services. An annual review of the financial condition of all qualified financial institutions shall be conducted by the Advisor. In addition, a list shall be maintained of approved securities broker/dealers. These may include “primary” dealers or regional dealers that comply with Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule). Broker/dealers are selected for placement on the list after thorough consideration and evaluation of a variety of factors, including but not limited to: execution capabilities, investment ideas, research capabilities, accessibility of trading personnel, responsiveness and financial responsibility.

### **B. DEPOSITORIES**

The Advisor shall comply with such requirements as set forth by S&P for a AAAM Stable NAV Fund. Among other things, this provides that the Advisor:

- (1) may deposit up to a maximum of 10% per bank in banks rated A-1 or higher for uncollateralized overnight bank deposits; and
- (2) shall otherwise obtain collateral or guarantees for bank deposits per S&P’s criteria. Such guarantees may include FDIC insurance.

## **V. ADMINISTRATIVE GUIDELINES**

### **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 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 Advisor.

### **C. DOCUMENTATION**

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

### **D. PARTICIPANT AGREEMENTS**

Each Participant must have a fully executed Instrument of Adoption or Resolution, Ordinance or equivalent document on file with FLSAFE before investing funds.

### **E. REPORTING AND DISCLSoure**

The Participants shall be provided: 1) information regarding the pool's investments and operations; 2) transaction confirmations, monthly statements and a quarterly report of operations; 3) an annual financial audit completed by an independent auditor; and 4) other information material to the investments or administration of FLSAFE.

### **F. APPROVAL OF INVESTMENT POLICY**

The investment policy shall be formally approved and adopted by the Board of Trustees and reviewed annually.

Amended:  
October 28, 2011  
January 18, 2013