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CLERK OF CIRCUIT COURT AND COUNTY COMPTROLLER**

# SARASOTA COUNTY

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## INVESTMENT POLICY

FINANCE DEPARTMENT

2018



*"To Meet the Needs and Exceed the Expectations of Those We Serve, in Fulfilling Our Constitutional Obligations"*

**SARASOTA COUNTY**  
**INVESTMENT POLICIES**

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These investment policies apply to all financial assets of Sarasota County, which are under the direct control of the Board of County Commissioners of Sarasota County. These policies do not include any financial assets under the direct control of any of the Constitutional Officers of Sarasota County or the Sarasota/ Manatee Airport Authority. At such time as the funds under their direct control pass to Sarasota County, these policies will become applicable.

## I. INVESTMENT RESPONSIBILITIES

### A. LEGAL REQUIREMENTS

Investments of Sarasota County are subject to Florida Statutes, Chapter 218.415. These investment policies are established to supplement the existing statutory authority.

#### 1. Investment Authority of Sarasota County

Investments of Sarasota County must conform to the provisions of Florida Statutes, Chapter 218.415, as amended from time to time. The Board of County Commissioners shall establish the overall investment policies and the implementation is delegated to the Clerk of the Circuit Court and County Comptroller ("Comptroller"), acting in her capacity as Comptroller. The Comptroller is herewith delegated the responsibility of establishing detailed investment and accounting procedures to govern the day to day investment activities necessary to carry out these investment policies.

#### 2. Authorized Investments

Sarasota County is authorized under Florida Statutes, Chapter 218.415 to purchase the following authorized investments:

- a. The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in s. 163.01.
- b. Securities and Exchange Commission registered money market funds invested in the investment securities authorized hereunder.
- c. Interest-bearing time deposits or savings accounts in qualified public depositories as defined in s. 280.02.
- d. Direct obligations of the United States Treasury.
- e. Federal agencies and instrumentalities.
- f. Securities of, or other interest in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to investment securities authorized hereunder and to repurchase agreements fully collateralized by such investment securities, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.
- g. Other investments authorized by law or by ordinance for a county or a municipality.

- h. Other investments authorized by law or by resolution for a school district or a special district.

## B. COLLATERAL REQUIREMENTS

### 1. General Requirements

Sarasota County is required by the provisions in Florida Statutes, Chapter 280 to place its deposits only in a "qualified public depository", as defined in the Florida Statutes. Any deposit placed in a qualified public depository is deemed to be adequately collateralized. Subsequent failure by a qualified public depository to timely return public deposits to Sarasota County will be governed by Chapter 280, as amended. In the event of a repeal of Chapter 280, the County shall adopt alternative collateralization policies.

### 2. Repurchase Agreements

The County is herewith required to seek collateral for any Repurchase Agreement, not covered under Florida Statutes, Chapter 280. Collateral placed for any repurchase agreement will be governed by the Master Repurchase Agreements executed between Sarasota County and the various security brokers, dealers and banks. The terms for collateral will be based on economic and financial conditions existing at the time of the repurchase agreement and credit risk of the particular broker, dealer or financial institution which enters into the repurchase agreement with Sarasota County.

## C. COUNTY FUNDS AND BOND RESOLUTION REQUIREMENTS

1. All County funds under the direct control of the Board of County Commissioners are herewith covered by these Investment Policies.
2. Certain funds are invested in compliance with specific investment policies contained within bond resolutions and official statements. Those policies were adopted in accordance with Florida Statutes Chapter 218.415, and are not in conflict with these Investment Policies. The investment of bond proceeds may be further limited or expanded by their respective bond resolutions or covenants and shall not be considered to be in conflict with the Investment Policy.

## II. **INVESTMENT OBJECTIVES**

### A. SAFETY OF CAPITAL

Safety of capital is regarded as the highest priority in the handling of investments for Sarasota County. All other investment objectives are secondary to the safety of capital. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.

From time to time, securities may be traded for other similar securities to improve yield, maturity or credit risk. For these types of transactions, a loss may be incurred for accounting purposes, provided any of the following occurs with respect to the replacement security:

- The yield has been increased, or
- The maturity has been reduced, or
- The quality of the investment has been improved.

**B. MAINTENANCE OF ADEQUATE LIQUIDITY**

The investment portfolio must be structured in such a manner that will provide sufficient liquidity to pay obligations as they become due. Specific policies describing the manner in which adequate liquidity is maintained are described in Section III B of these Policies.

**C. RETURN ON INVESTMENTS**

The County seeks to optimize return on investments within the constraints of safety and liquidity. The investment portfolio shall be designed with the annual objective of exceeding the average return on the corresponding treasury maturity (yearly rolling average), based on the portfolio's average duration.

**D. PRUDENCE AND ETHICAL STANDARDS**

Investment officials shall utilize the Prudent Person Rule as defined by Florida State Statute 218.415(4) in the context of managing the overall investment portfolio. The Prudent Person Rule is herewith understood to mean the following:

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

Investment officials, or persons performing investment functions, acting in accordance with written policies and procedures, and exercising due diligence shall be relieved of personal liability 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.

**III. INVESTMENT POLICIES****A. POLICIES TO ENSURE SAFETY OF CAPITAL**

The following policies are set forth below to provide additional guidance in implementing the first investment objective, safety of capital.

**1. Reducing Credit Risk****a. Acceptable Investments**

Legally authorized investments were set forth above in Section I, A. The following is an expansion of that list, including additional restrictions:

**i. U.S. Treasury Obligations (including but not limited to):**

U.S. Treasury Bills  
U.S. Treasury Notes  
U.S. Treasury Bonds

ii. **Obligations guaranteed by the U.S. Government, as to principal and interest (including but not limited to):**

Export Import Bank of the United States  
Farmers Home Administration  
General Services Administration  
Government National Mortgage Association  
Overseas Private Investment Corporation  
Penn Central Transportation Certificates  
Ship Financing Bonds Title XI  
Small Business Administration  
United States Agency for International Development  
Washington Metropolitan Transit Authority Bonds

iii. **QPD Time Deposits, Money Markets and Savings Deposits of banks and savings and loans organized under the laws of the State of Florida or the U.S. Government and operating in the State of Florida as a QPD:**

Money Market Accounts  
Certificates of Deposits (non-negotiable type)

iv. **Obligations of the following Government Sponsored Enterprises – GSEs (including but not limited to):**

Federal Farm Credit Banks (FFCB)  
Federal Home Loan Mortgage Corporation (FHLMC)  
Federal Home Loan Bank (FHLB) or its banks  
Federal National Mortgage Association (FNMA)  
Financing Corporation (FICO)  
Private Export Funding Corporation (PEFCO)  
Resolution Funding Corporation (REFCORP)  
Student Loan Marketing Association (SLMA)  
Tennessee Valley Authority (TVA)

Permitted investments in the above listed agencies and instrumentalities shall include bonds, debentures, notes or other evidence of indebtedness issued including mortgage pass-throughs, FFIEC compliant collateralized mortgage obligations, commercial mortgage backed securities, adjustable rate securities and adjustable rate mortgages.

v. **Corporate Debt Securities:**

Commercial Paper, Notes and Bonds, of U.S. Corporations, having a minimum NRSRO category short term rating of A-1 or long term category rating of A.

vi. **Bankers' Acceptances:**

Bankers' Acceptances which would be eligible for purchase by the Federal Reserve Banks - shall have a Letter of Credit rating, or an obligor minimum NRSRO category rating of A.

**vii. Municipal Obligations:**

Municipal obligations with a minimum NRSRO category rating of A whose payments are secured by taxes or essential services revenue – i.e. water, sewer or power systems.

**viii. Money Market Funds:**

Shares in an open-end and no-load money market fund, provided such fund is registered under the Investment Company Act of 1940, with a maximum weighted average maturity of 60 days whose underlying investments would be permitted for purchase under this policy and has a minimum AAm or equivalent NRSRO rating. As well as any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in s. 163.01, having a minimum NRSRO rating equivalent of AAm.

**ix. Fixed Income Funds:**

Shares in an open-end and no-load fixed income mutual fund, provided such fund is registered under the Investment Company Act of 1940, whose underlying investments would be permitted for purchase under this policy and has a minimum AAF or equivalent NRSRO rating. As well as any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in s. 163.01, having a minimum NRSRA rating equivalent of AAF.

**x. Asset Backed Securities:**

Asset Backed Securities (ABS) and ABS commercial paper limited to traditional consumer receivables, such as auto, equipment, utility or credit card receivables provided that such securities have a minimum NRSRO category rating equivalent of AAA or A-1+.

**xi. Supranational Bonds:**

U.S. dollar denominated debt obligations of a multilateral organization of governments, with the largest capital contributor being the U.S.A., with a minimum NRSRO rating equivalent to obligations guaranteed by the U.S.A. For example, the International Bank for Reconstruction and Development (IBRD or World Bank), the International Finance Corporation (IFC), and the Inter-American Development Bank (IADB).

**xii. Repurchase Agreements:**

Sarasota County is herewith authorized to enter into Repurchase Agreements (for purchase and subsequent sale) for any of the investments authorized in Section III, A, 1, a, i, ii, iv, v, vii, x and xi of this Policy.

These investments shall be managed in accordance with the limitations set forth in the following schedule:

Sector	Sector Maximum %	Per Issuer Maximum %	Minimum Ratings Requirement (at time of purchase)	Maximum EDUR* (at time of purchase)
U.S. Treasury	100	100	N/A	5 years
U.S. Government Securities (GNMA)	35	35		
U.S. Government Agencies (GSE)	75 (inclusive of all security types)	25% per issuer / 20% per issue		
Federal Instrumentalities (TVA, REFCORP, FICO, etc.)				
Repurchase Agreements	50	10	Counterparty must be rated in the Highest NRSRO* rating category (or if not rated by an NRSRO, then the counterparty's parent). If the counterparty is a Federal Reserve Bank, no rating is required	31 days
Commercial Paper	25	5	NRSRO rating category A or A-1	270 days
Corporates				5 years
Banker Acceptance Notes	25	5 per entity / 10 per guarantor	NRSRO rating category A (entity or guarantor)	180 days
SEC Registered Money Market Funds	50	10	AAM or equivalent	60 days
SEC Registered Bond Funds	25	10	AAf or equivalent	2 years
FL Interlocal Investment Pools	50	smaller of 10% investment management entity AUM or 20% of Pool balance	AAM /AAf equivalent	2 years
State & Local Government Debt (Municipal Bonds and Certificates of Participation)	25	5	NRSRO rating category A (Issuer or Guarantor); source of payment limited to taxes or essential service utility revenue	5 years
Asset Backed securities	25	10% per issuer / 5% per issue	Highest NRSRO short term or long term rating category; limited to traditional consumer receivables, such as: auto, equipment, credit card receivables	5 years
Agency Mortgage Backed securities (including GNMA)	35	35	N/A	5 years and FFIEC* compliant
QPD CD	80	20	N/A	5 years
QPD Money Market				1 day
Supranational Bonds	10	5	NRSRO >or= to U.S. GSEs; U.S. must be largest capital contributor	5 years
<b>Sample NRSRO Rating Categories</b>				
*FFIEC – Federal Financial Institutions Examination Council EDUR – Effective Duration GSE – Government Sponsored Enterprise FDIC – Federal Deposit Insurance Corporation NRSRO – Nationally Recognized Statistical Rating Organization			<b>Long Term Rating</b>	<b>Short Term Rating</b>
			AAA	A-1+
			AA+	
			AA	
			AA-	
			A+	A-1
			A	

b. NRSRO Rating Categories

The intent of the ratings restriction is to quantify credit risk. Accordingly, all securities purchased by the County must meet the ratings requirement as stipulated by the schedule in Section III, A, 1, a, on the date of purchase. In some instances, an issuer may elect not to have a security rated by an NRSRO. If such security is *pari passu* with a rated security of the same issuer, the non-rated security may be eligible for purchase utilizing the rating of the *pari passu* security.

In the event a security is rated by multiple NRSROs, with one of those ratings below the specified minimum category rating, it shall not be eligible for purchase, if it was most recently rated by that NRSRO at a higher category. The purpose of this restriction is to allow for purchasing securities of issuers with improving credit fundamentals and eliminate issuers from consideration with declining fundamentals.

c. Approved Broker/Dealers

It is the policy of Sarasota County to purchase securities from those broker/dealers or banks that have been approved by the Comptroller. Approved broker/dealers and banks will be reviewed, on at least an annual basis, to ensure they meet the evaluation criteria.

Firms will be selected at the sole discretion of the Comptroller and evaluated based on the following criteria:

- i. Banks and savings and loan associations must be a Qualified Public Depository, as determined by the State of Florida and as published in the Florida Administrative Weekly. Other financial institutions may be approved if they have a shareholder's equity of at least \$250 million. For a wholly-owned subsidiary, statements of the parent holding company may be accepted to satisfy the equity requirement.
- ii. Brokers and dealers must be primary government securities dealers as indicated on the Federal Reserve Bank of New York list. Additionally, those broker/dealers who have a contractual relationship, or previous or current satisfactory fiduciary responsibility with the County in some other capacity.
- iii. Repurchase Agreements will be conducted only with principals and not through third-party brokers acting as agents. Repurchase Agreements will be in the form specified in Section III, A, 8 of this Policy.
- iv. Completion of the broker/ dealer application/ questionnaire provided by the Comptroller's Office.

The supervising officer of an approved broker/ dealer will be required to submit a certification document. The document will certify that the officer has reviewed and accepted the investment policy and objectives of the County and further agrees to disclose potential conflicts or risks to County funds that might arise out of business transactions between the firm and the Comptroller's Office or County. All approved broker/ dealers shall agree to undertake reasonable efforts to preclude imprudent transactions involving County funds. The supervising officer shall agree to exercise due diligence in monitoring the activities of other officers and subordinate staff members engaged in dealings with the Comptroller's Office.

d. 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. Investments held in custody and safekeeping by the Federal Reserve Bank of Jacksonville or any other Reserve Bank will qualify as third-party safekeeping. Other banks may qualify as third-party banks for safekeeping provided the securities are held in the Trust Department of the bank, and the total assets of the bank are in excess of \$4 billion.

Certificates of deposits and other time deposits do not need to be placed with a third- party custodian, since they are collateralized through Chapter 280 of the Florida Statutes. Prior to any transfer of securities to a third-party custodian bank, a custodian/safekeeping agreement will be executed by the custodian bank and the Comptroller on behalf of the County and filed for record.

e. Delivery vs. Payment

Securities transactions between a broker/dealer and the custodian involving purchase or sale of securities by transfer of money or securities must be made on a “delivery vs. payment” basis, if applicable, to insure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction.

Delivery in or out of safekeeping with a Federal Reserve Bank will not be done simultaneously.

f. Collateralization

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

Collateral requirements for Repurchase Agreements will be contained in the Master Repurchase Agreement, executed between the Comptroller on behalf of the County and the broker/dealer or bank. 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 particular broker/dealer or financial institution which enters into the repurchase agreement with the County.

At no time will the collateral (margin ratios) be less than the following provisions:

i. Margin Ratios

For purposes of calculating the margin amount, the following ratios shall be applied to the market value of the purchased securities, depending on their maturity:

<u>Maturity of Purchased Securities</u>	<u>U.S. Treasury Securities &amp; Agencies</u>
Under 1 Year	101%
Over 1 Year	102%

ii. Market Value

In determining market value, dealers' bid prices shall be used, as quoted daily in the Wall Street Journal, or other acceptable media, and accrued interest shall be included.

g. Bidding Process

All investments, except the daily open repurchase agreement with the depository bank as it relates to the overall banking agreement, will be purchased through a competitive bidding process, using the dealers and banks on the approved list. The County is under no obligation to secure competitive bids from all the dealers or banks on the approved list. Rather a decision will be made by the investment officials as to the institutions that have been the most competitive over the last few weeks, and these will be contacted for a bid. Documentation will be retained for all bids/offers, with the winning bid/offer clearly identified. If for any reason, the best bid/offer was not selected, then the reasons leading to that decision will be clearly indicated on the bidding forms.

After the Director of Finance or the Treasury Management staff has determined the approximate maturity or Effective Duration, based on cash flow needs and market conditions, and has identified the optimal security type(s), a minimum of three banks or dealers must be contacted to ask for an indicative bid/offering of securities that fit the investment criteria.

The competitive bidding policy may be waived for a potential purchase or sale of certain securities due to market availability (supply and demand). Under these circumstances, the Comptroller or Director of Finance must approve the transaction. In addition, securities which trade in a quoted market – are exempt from the competitive bidding process but must adhere to the documentation process. Securities that can be traded at prices better than their valuation price, as provided by an independent third party, are also exempt from competitive bidding but again, documentation confirming a purchase or sale within the quoted market must be maintained.

h. Diversification of Portfolio

Prudent investing necessitates that the portfolio be diversified as to instruments and dealers. To allow efficient and effective placement of proceeds from bond sales, the limit on repurchase agreements may be exceeded for a maximum of five (5) business days following the receipt of bond proceeds, on the direction of the Comptroller or Director of Finance.

Money Market Funds may be used by Trustees, Paying Agents, Safekeeping Agents, etc., as a temporary investment for bond proceeds or payouts.

No more than 25% of the entire portfolio may be placed with any one security dealer or bank.

Written Repurchase Agreements

All repurchase agreements must be in written form using the Public Securities Association (PSA) Master Repurchase Agreement as a guide.

## 2. Reducing Interest Rate Risk

Generally, the longer the maturity of a particular investment, the greater it's price volatility. Accordingly, the County seeks to limit interest rate risk by maintaining an investment portfolio with limited Effective Duration volatility. Guidelines are established below.

### i. Pooled Cash and Investments (with no external restrictions)

No security shall, at time of purchase, have an Effective Duration exceeding five (5) years or cause the weighted average Effective Duration of the portfolio to be greater than 2.5 years or as required to best meet projected cash flow needs of the County.

All Collateralized Mortgage Obligations are required to pass the high-risk security test at the time of purchase and annually thereafter. The three FFIEC tests used to determine compliance analyze Average Life, Average Life Sensitivity and Price Sensitivity for a standardized set of nine scenarios +/- 300 basis points.

### ii. Restricted Accounts

Unless otherwise stipulated, the Restricted Account's investment portfolio will have a cash flow structure consistent with the nature of the restricted account.

## B. POLICIES TO ENSURE ADEQUATE LIQUIDITY

### 1. Maintenance of Liquidity Base

A liquidity base of approximately two (2) months of anticipated disbursements, excluding bond construction payments or other bond payments made from escrow or trust accounts, will be kept in relatively short-term investments. These would include funds on deposit in the County's depository account, investments in a stable NAV Florida Local Government Investment Pool, Repurchase Agreements and other investments maturing in less than 1 year.

### 2. Maximum Maturity on Repurchase Agreement

The maximum maturity for any single Repurchase Agreement, except for the daily repurchase agreement with the concentration bank, will be one (1) year.

### 3. Purchase Securities with Active Secondary Market

Many securities are legally authorized but are not very desirable from a liquidity standpoint. Accordingly, although investments may be on the authorized list, only those securities from an issuer with an active secondary market may be purchased.

## C. POLICIES TO ACHIEVE INVESTMENT RETURN OBJECTIVES

### 1. Active Portfolio Management

It is the policy of the County to actively manage the investment portfolio within the constraints outlined in these investment policies. In recognition that specific investments and markets are dynamic, that relative values can change over time, and by regularly reassessing their analysis and projected performance and making timely re-allocations of investments, it is the policy to

review and pursue those opportunities that are consistent with long term optimization (active management). Outside consulting managers may be used to direct a portion of the portfolio using approved investments to enhance returns, subject to approval by the Comptroller.

## 2. Portfolio Maturity Management

When structuring the maturity composition of the portfolio, it is the policy of the County to evaluate current and expected interest rate yields, by evaluating the general economic conditions. Whenever interest rates are expected to increase in the near future, actions will be taken by the Treasury Management staff to shorten the portfolio's Effective Duration. Accordingly, whenever interest rates are expected to decrease, the Effective Duration of the portfolio will be lengthened, as appropriate. Specific procedures for evaluating the general economic conditions shall be incorporated into the Investment Procedures.

## 3. Bond Swaps

It shall be the policy of the County to pursue bond swaps as they may present themselves over the term of any investment. The following categories of bond swaps are considered appropriate for the County:

### a. Swaps to Increase Yield

Market aberrations are often caused by supply and demand conditions for particular securities. For example, if a short supply exists for a particular maturity range, it may be advantageous to swap out of the security in a short supply and into another similar security in a different maturity range.

### b. Swaps to Reduce Maturity

Market aberrations occasionally create a situation where longer maturity securities are yielding the same or less than securities with a shorter maturity. Portfolio quality can be improved by switching from the longer maturity security to the shorter maturity with little or no impact on portfolio performance.

### c. Swaps to Increase Portfolio Quality

Market aberrations occasionally create a situation where certain higher risk securities yield the same or less than an equivalent lower risk security. Portfolio quality can be improved by switching from the higher risk security to a lower risk security little or no impact on portfolio performance.

Temporary accounting losses on swaps can be incurred provided the loss is more than offset by the improvement in quality, shortening of duration or increasing yield. Procedures for evaluating and recording bond swaps shall be incorporated into the Investment Procedures.

## 4. Performance Measurement

The investment objectives of the County's portfolio are preservation of capital, liquidity and income. In order to assist in the evaluation of the portfolio's performance, relative to an acceptable level of risk, the Clerk shall use a performance benchmark. The most comparable

duration asset to the market cycle duration of the portfolio is the 2 year U.S. Treasury. To measure the appropriate income or yield for the County's investment portfolio, we will benchmark the aggregate portfolio yield against the 24 month rolling average yield of the 2 year constant maturity U.S. Treasury.

#### D. POLICIES TO ENSURE ETHICAL AND PRUDENT ACTION

##### 1. Establishment of Internal Controls

It is the policy of the County to establish a system of internal controls, which shall be in writing. The internal controls shall address the following points:

a. Control of collusion

Collusion is a situation where two or more employees are working in conjunction to defraud their employer or gain something illegally.

b. Separation of functions

Separation of key functions provides the County the ability to prevent fraud and errors by disseminating tasks and associated privileges amongst multiple employees.

c. Custodial safekeeping

Securities purchased from any bank or dealer, including appropriate collateral, should be placed into a third-party bank for custodial safekeeping.

d. Third-Party acknowledgement

Any monies managed on behalf of Sarasota County will adhere to the current investment policy and ordinance.

e. Clear delegation of authority to subordinate staff members

Subordinate staff members must have a clear understanding of their authority and responsibilities, to avoid any improper actions. Clear delegation of authority also preserves the internal control structure that is built around the various staff positions and their respective responsibilities.

f. Specific limitations regarding securities losses and remedial action

Securities losses may be necessary to implement this Investment Policy. These losses should be restricted to specified purposes and proper documentation and required approval should be clearly defined for each staff person.

g. Written confirmation of telephone transactions for investments and wire transfers

Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person.

h. Documentation of transactions and strategies

All transactions and the strategies that may have been used to develop the transactions should be documented in writing and approved by the appropriate person.

- i. Development of a wire transfer agreement with the depository bank as it relates to the overall banking agreement

This agreement should outline the various controls and security provisions for making and receiving wire transfers.

- j. Investigation and due diligence of government sponsored pools and/or mutual funds

The due diligence of pools/funds shall be fully investigated and documented. Procedures for evaluating pools and funds shall be incorporated into the Investment Procedures.

## 2. Investment Report

The Comptroller's Office shall prepare an investment report on a monthly basis for the Board of County Commissioners. The report shall include information regarding the type, book value and diversification of the securities in the portfolio, as well as the investment strategy and earned income information. The reports shall be made available to the public.

Market conditions may, from time to time, negatively impact the underlying securities in the portfolio. Any violations of the investment policy shall be immediately reported to the Comptroller, upon their discovery. For example, if an existing security experiences a change that would preclude it from being purchased, a downgrade in the bond's credit rating or an extension in its Effective Duration - beyond that allowed by the Investment Policy Statement, the Comptroller, in consultation with the Director of Finance and Treasury Management staff, may decide to continue to hold or sell the security. In the event the security is to remain in the portfolio - it will be added to a "Security Watch List" report with the rationale for continuing to hold the security.

## 3. Training and Education

It is the policy of the County to provide for the continuing education of the investment officials responsible for making investment decisions. The Treasury Manager, and any other officials responsible for making investment decisions, shall annually complete no less than twenty-four (24) hours of continuing education in subjects or courses of study related to investment practices and products, in accordance with Section 218.415 (14), Florida Statutes.

## 4. Independent Review of the Investment Portfolio and Investment Policy

The Comptroller shall engage a qualified rating agency or analytical firm to review the investment portfolio of the County annually. Such review should include, but not be limited to, a review of the organization, investment team, operating policies, internal controls, maturity and credit quality of the portfolio investments and sensitivity of the portfolio to changing market conditions.

#### IV. GLOSSARY OF TERMS

1. ACCRUED INTEREST: The accumulated interest due on a bond from the last interest payment made by the issuer.
2. ACTIVE INVESTMENT STRATEGY: An investment strategy involving ongoing buying and selling actions by the investor. Active investors purchase investments and continuously monitor their activity in order to take advantage of advantageous conditions.
3. AMORTIZATION: The systematic reduction of the amount owed on a debt issue through periodic payments of principal.
4. ASKED: The price at which securities are offered for sale.
5. ASSET-BACKED SECURITY (ABS): A financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities.
6. BANKERS' ACCEPTANCE (BA): A short-term debt instrument issued by a company that is guaranteed by a commercial bank. Banker's acceptances are issued as part of a commercial transaction. These instruments are similar to T-Bills, are frequently used in money market funds and are traded at a discount from face value on the secondary market, which can be an advantage because the banker's acceptance does not need to be held until it matures.
7. 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.
8. BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the weighted average duration of the portfolio's investments.
9. BID: The indicated price at which a buyer is willing to purchase a security or commodity.
10. 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.
11. BROKER: A broker brings buyers and sellers together for a commission.
12. CALL PRICE: The price at which an issuer may redeem a bond prior to maturity.
13. CALL RISK: The risk to a bondholder that a bond may be redeemed prior to maturity.
14. 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.
15. CASH SALE/PURCHASE: A transaction, which calls for delivery and payment of securities on the same day that the transaction is initiated.
16. CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate.

17. **CERTIFICATE OF PARTICIPATION (COP):** A lease-financing agreement used by a municipality or local government to acquire real property. Under the agreement, the local government makes regular payments over the annually renewable contract for the acquisition and use of the property. A lease-financing contract is typically made available in the form of a certificate of participation.
18. **COLLATERAL:** Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.
19. **COLLATERALIZATION:** Process by which a borrower pledges securities, property, or other deposits for securing the repayment of a loan and/or security.
20. **COMMERCIAL MORTGAGE BACKED SECURITY (CMBS):** A type of mortgage-backed security that is secured by mortgages on commercial properties, instead of residential real estate. The underlying loans that get securitized into CMBS include loans for properties such as apartment complexes and buildings, factories, hotels, office buildings and shopping malls. Issuers can include government agencies, commercial banks, insurance companies and brokerage firms.
21. **COMMERCIAL PAPER:** An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. Maturities on commercial paper rarely range any longer than 270 days. Commercial paper is usually issued at a discount from face value and reflects prevailing market interest rates.
22. **COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual report for Sarasota County, Florida. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.
23. **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.
24. **CORPORATE BOND:** A corporate bond is a debt security issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations. Corporate debt can be classified according to maturity with Commercial Paper being the shortest, followed by Notes and Bonds - similar to the maturity classification of U.S. Treasury Bills, Notes and Bonds.
25. **COUPON:** The annual interest rate paid on a bond, expressed as a percentage of the face value.
26. **CREDIT QUALITY:** The measurement of the financial strength of a bond. This measurement helps an investor to understand an issuer's ability 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 security rating organizations (NRSROs).
27. **CREDIT RISK:** The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.
28. **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.

29. CUSTODIAL/SAFEKEEPING: See "Safekeeping".
30. DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.
31. DEBENTURE: A bond secured only by the general credit of the issuer.
32. DELIVERY VERSUS PAYMENT (DVP): A securities industry settlement procedure in which the buyer's payment for securities is due at the time of delivery. Delivery versus payment (DVP) is a settlement system that stipulates that cash payment must be made prior to or simultaneously with the delivery of the security.
33. DERIVATIVES: (a) 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 (b) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).
34. DISCOUNT: The amount by which the market price of a bond is lower than its principal amount due at maturity. This amount, called its par value, is often \$1,000. As bond prices are quoted as a percent of face value, a price of 98.00 means that the bond is selling for 98% of its face value of \$1,000 and the bond discount is 2%.
35. DISCOUNT SECURITIES: A money market security, such as a Treasury bill or commercial paper, that is issued at a discount but that matures at face value. The only income received by the investor is the difference between the price paid and the proceeds received at maturity or the sale of the security.
36. DIVERSIFICATION: This risk management technique mixes a wide variety of investments within a portfolio to smooth out unsystematic risk events in the portfolio to allow the positive performance of some investments to neutralize the negative performance of others. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio.
37. 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. Generally a bond with a duration of 6 years, for example, will increase or decrease in value by 6% with a corresponding 1% increase or decrease in its yield.
38. EFFECTIVE DURATION: A duration calculation for fixed income securities that have embedded options. This measure of duration takes into account the fact that expected cash flows will fluctuate as interest rates change. Effective Duration can be estimated using modified duration if a bond with embedded options behaves like an option-free bond.
39. EXPORT-IMPORT BANK (EX-IM BANK): Ex-Im Bank is the official export credit agency of the United States federal government. It was established in 1934 by an executive order, and made an independent agency in the Executive branch by Congress in 1945, for the purposes of financing and insuring foreign purchases of United States goods for customers unable or unwilling to accept credit risk. Ex-Im Bank does not compete with private sector lenders, but rather provides financing for transactions that would otherwise not take place because commercial lenders are either unable or unwilling to accept the political or commercial risks inherent in the deal.

40. FARMER'S HOME ADMINISTRATION (FmHA): A unit of the Department of Agriculture which makes loans for community centers, farms, and homes in rural areas.
41. 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.
42. FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per depositor, per insured bank, for each account ownership category.
43. FEDERAL FARM CREDIT BANKS (FFCB): The Federal Farm Credit Banks Funding Corporation issues debt securities as fiscal agent for the Farm Credit System, which is a nationwide network of borrower-owned lending institutions and service organizations specializing in agricultural and rural America. The mission of this government-sponsored enterprise is to ensure the availability of sound, dependable funding for agricultural producers, cooperatives, and certain farm related business.
44. FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL (FFIEC): The FFIEC is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller or the Currency (OCC), and the Consumer Financial Protection Bureau (CFPB) and to make recommendations to promote uniformity in the supervision of financial institutions. The Council is responsible for developing uniform reporting systems for federally supervised financial institutions, their holding companies, and the nonfinancial institution subsidiaries of those institutions and holding companies.
45. 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 immediately available funds.
46. FEDERAL FUNDS RATE: Interest rate charged by one institution lending federal funds to the other.
47. FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.
48. FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): FHLMC, commonly referred to as Freddie Mac, is a government sponsored enterprise that provides liquidity to the mortgage markets, much like FNMA and FHLB.
49. FEDERAL HOUSING ADMINISTRATION (FHA): A federally sponsored agency that insures lenders against loss on residential mortgages. Founded in 1934, it was the forerunner of a group of government agencies responsible for the growing secondary market for mortgages (GNMA & FNMA).
50. FEDERAL INSTRUMENTALITY: A government agency or corporation that acts independently in carrying out work for the public good. Instrumentalities may exist and operate at the federal, state

or municipal levels. The legal groundwork for instrumentality is based on the Necessary and Proper Clause of the U.S. Constitution (Article 1, Section 8), which precludes federal and state governments from taxing either's governmental operation. Instrumentality also provides for the backing of government agency obligations based on the full faith and credit of the federal government.

51. FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.
52. FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.
53. FEDERAL RESERVE SYSTEM: The central banking system of the United States created by Congress. Congress established three key objectives for monetary policy—maximum employment, stable prices, and moderate long-term interest rates—in the Federal Reserve Act. The Federal Reserve is independent within government in that its monetary policy decisions do not have to be approved by the President or anyone else in the executive or legislative branches of government. The Federal Reserve System's structure is composed of the presidentially appointed Board of Governors (or Federal Reserve Board), the Federal Open Market Committee (FOMC), twelve regional Federal Reserve Banks located in major cities throughout the nation, numerous privately owned U.S. member banks and various advisory councils.
54. FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA): A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.
55. FINANCING CORPORATION (FICO): A mixed-ownership United States government-sponsored enterprise that operated as a financing vehicle for the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund. Its bond interest payments are funded by the Deposit Insurance Fund (DIF) premiums of the Federal Deposit Insurance Corporation (FDIC).
56. FLORIDA INTERLOCAL INVESTMENT POOL: The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in s. 163.01.
57. FLORIDA LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND (FLORIDA PRIME/SBA): The aggregate of all funds from political subdivisions that are placed in the custody of the State Board of Administration for investment and reinvestment.
58. FLORIDA LOCAL GOVERNMENT INVESTMENT TRUST: A local government investment pool (LGIP) developed through the joint efforts of the Florida Association of Court Clerks and Comptrollers (FACC) and the Florida Association of Counties (FAC). Organized on December 12,

1991, The Florida Trust is designed to complement existing investment programs by providing investment vehicles for funds that can be invested in short- to intermediate-term securities and have returns generally greater than the national average for money market instruments. The Florida Trust offers two open-ended, professionally managed funds available only to public entities in Florida.

59. FLORIDA MUNICIPAL INVESTMENT TRUST (FMIVT): The FMIVT, administered by the Florida League of Cities, Inc., is an interlocal governmental entity created under the laws of the State of Florida. The FMIVT is an Authorized Investment under Sec. 163.01 Florida Statutes.
60. FLORIDA SECURITY FOR PUBLIC DEPOSITS ACT: Chapter 280, Florida Statutes establishes a statewide “pool” program ensuring the protection from financial institution failure of public deposits of the state and its political subdivisions not covered by federal deposit insurance. All qualified public depositories are required to meet certain collateral requirements established by the Chief Financial Officer of the State of Florida.
61. GENERAL SERVICES ADMINISTRATION (GSA): An independent agency of the United States government, established in 1949 to help manage and support the basic functioning of federal agencies.
62. GOVERNMENT AGENCY SECURITY: “Agencies” is a term used to describe two types of bonds: (1) bonds issued or guaranteed by U.S. federal government agencies; and (2) bonds issued by government sponsored enterprises (GSEs) – corporations created by Congress to foster a public purpose, such as affordable housing.
63. GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA/ GINNIE MAE): A wholly owned US Government corporation within the US Department of Housing and Urban Development (HUD). The main focus of Ginnie Mae is to ensure liquidity for US government insured mortgages including those insured by the Federal Housing Administration (FHA), the Veterans Administration (VA) and the Rural Housing Administration (RHA).
64. GOVERNMENT SPONSORED ENTERPRISE (GSE): A member of a group of financial services corporations created by the United States Congress. Their function is to enhance the flow of credit to targeted sectors of the economy and to make those segments of the capital market more efficient and transparent. A GSE benefits from an implicit federal guarantee to enhance its ability to borrow money. GSEs are supervised but not directly managed by the federal government.
65. INTEREST RATE: See “Coupon Rate”.
66. 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.
67. 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 that 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.
68. 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.
69. INVESTMENT: A security or other asset acquired primarily for the purpose of obtaining income or profit.

70. INVESTMENT COMPANY ACT OF 1940: Federal legislation that 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.
71. INVESTMENT POLICY: A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.
72. 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 or higher by a rating agency.
73. LETTER OF CREDIT: An obligation issued by a bank on behalf of a bank customer to a third party. There are many different kinds of letter of credit. The two most common are commercial letters and standby letters. A commercial or trade letter of credit is a bank promise to pay the third party for the purchase of goods by the bank's customer. A standby letter of credit is a bank promise to pay the third party in the event of some defined failure by the bank's customer, usually, but not always a failure to pay. Standby letters of credit are often used as credit enhancements for securities.
74. LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.
75. LIQUIDITY RISK: The risk that a liquid asset cannot be converted without a substantial loss of value or earnings.
76. LOCAL GOVERNMENT INVESTMENT POOL (LGIP): Investment pools that are not registered with the Securities and Exchange Commission (SEC) and are exempt from SEC regulatory requirements because they fall under a governmental exclusion clause. While this exemption allows pools greater flexibility, it also reduces investor protection. These pools typically combine the cash of participating jurisdictions and invest the cash in securities allowed under the state's laws regarding government investments. By pooling funds, participating governments benefit from economies of scale, full-time portfolio management, diversification, and liquidity (especially in the case of pools that seek a constant net asset value of \$1.00). Interest is normally allocated to the participants on a daily basis, proportionate to the size of their investment.
77. MARK-TO-MARKET: The process whereby the book value or collateral value of security is adjusted to reflect its current market value.
78. MARKET RISK: The risk that the value of a security will increase or decrease as a result of changes in market conditions.
79. MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.
80. MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.
81. MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

82. MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.
83. 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, repos and federal funds).
84. MORTGAGE BACKED SECURITY (MBS): A debt instrument with a pool of real estate loans as the underlying collateral. The mortgage payments of the individual real estate assets are used to pay interest and principal on the bonds.
85. MUNICIPAL BOND: A debt security issued by a state, municipality or county to finance its capital expenditures, including the construction of highways, bridges or schools.
86. 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 Securities and Exchange Commission (SEC) disclosure guidelines.
87. NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): A credit rating agency (CRA) that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. Examples of a CRA include: Moody's, S&P and Fitch, among others.
88. 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".
89. OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See "Asked" and "Bid".
90. OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.
91. PAR: Face value or principal value of a bond, typically \$1,000 per bond.
92. PASSIVE INVESTMENT STRATEGY: Passive investment management is an investment strategy in which securities are bought with the intention of holding them to maturity or investing in benchmark products designed to yield a market rate of return.
93. PORTFOLIO: Collection of securities held by an investor.
94. POSITIVE YIELD CURVE: A chart formation that illustrates short-term securities having lower yields than long-term securities.
95. PREMIUM: The amount by which the price paid for a security exceeds the security's par value.
96. PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York

and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

97. PRIME RATE: A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.
98. PRINCIPAL: The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.
99. PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody State - the so-called legal list. In other States the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital. In conjunction with Florida State Statute 218.415(4) the Prudent Person Rule is herewith understood to mean the following:

"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment."
100. QUALIFIED PUBLIC DEPOSITORIES (QPD): A bank or savings association that has: a branch office(s) authorized to receive deposits in Florida, has FDIC deposit insurance, meets the requirements of Chapter 280, F.S., and has been designated by the Florida Division of Treasury as a QPD.
101. RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.
102. REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.
103. RESOLUTION FUNDING CORPORATION (REFCORP): A mixed-ownership government corporation established by Congress in 1989 in conjunction with the Resolution Trust Corporation (RTC). The two corporations were established to rescue savings and loan (S&L) institutions that failed during the savings and loan crisis. REFCORP provided liquidity to these organizations by issuing bonds.
104. RULE 2a-7 OF THE INVESTMENT COMPANY ACT: Applies to money market mutual funds and mandates such funds to maintain certain standards, including a 13- month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar (\$1.0000). This rule was amended in August of 2014 as a result of the Financial Crisis. There are a number of additional restrictions placed upon funds that are managed to this rule to preserve the investor's investment.
105. SAFEKEEPING/CUSTODIAL: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

106. SEC RULE 15C3-1: See “Uniform Net Capital Rule”.
107. SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.
108. SECURITIES & EXCHANGE COMMISSION (SEC): An independent federal government agency responsible for protecting investors, maintaining fair and orderly functioning of securities markets and facilitating capital formation. It was created by congress in 1934 as the first federal regulator of securities markets. The SEC promotes full public disclosure, protects investors against fraudulent and manipulative practices in the market, and monitors corporate takeover actions in the United States.
109. SECURITY: A transferable financial instrument that evidences ownership or creditorship, whether in physical or book entry form.
110. SERIAL BOND: A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.
111. SINKING FUND: Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.
112. SLUGS: Nonmarketable US Treasury securities sold to states and municipalities. These parties then deposit the securities into escrow accounts until they use them to pay off their own bonds at maturity.
113. SMALL BUSINESS ADMINISTRATION (SBA): The SBA is a United States government agency that provides support to entrepreneurs and small businesses. SBA loans are made through banks, credit unions and other lenders who partner with the SBA. The SBA provides a government-backed guarantee on part of the loan.
114. SPREAD: (a) The yield or price difference between the bid and offer on an issue, or (b) The yield or price difference between different issues.
115. STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.
116. STUDENT LOAN MARKETING ASSOCIATION (SLMA): SLMA, commonly referred to as Sallie Mae, provides federally guaranteed student loans originated under the Federal Family Education Loan Program. Congress created Sallie Mae in 1972 as a government sponsored enterprise. Sallie Mae began privatizing its operations in 1997 and completely severed its ties to the federal government in 2004.
117. SUPRANATIONAL BONDS: A supranational entity is formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds. Supranational debt refers to bonds issued by international organizations, often multinational or quasi-government organizations, with the purpose of promoting economic development for their member countries. Examples include World Bank and Asian Development Bank.

118. SWAP: Trading one asset for another.
119. TENNESSEE VALLEY AUTHORITY (TVA): The TVA is a federally owned corporation and is not authorized to issue stock. Additionally, the TVA does not receive any federal funding. Instead, it finances its operations through the sale of TVA bonds and through the sale of energy. The TVA sells four kinds of bonds: Putable Automatic Rate Reset Securities (PARRS); TVA ElectroNotes; Discount Notes; and Other TVA Power Bonds, which are issued domestically and internationally and carry a wide variety of maturities, terms, returns and currency denominations. Per congressional mandate, the TVA cannot have more than \$30 billion of debt outstanding at any one time, and it can only issue bonds to fund its power program or refinance existing debt.
120. 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.
121. TIME DEPOSITS: See "CD's".
122. TOTAL RETURN: The sum of all investment income plus changes in the market value of the portfolio.
123. TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.
124. TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.
125. TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of 10 years or less.
126. UNIFORM NET CAPITAL RULE: A rule originally created by the U.S. Securities and Exchange Commission ("SEC") in 1975 to regulate directly the ability of broker-dealers to meet their financial obligations to customers and other creditors.
127. VOLATILITY: A degree of fluctuation in the price and valuation of securities.
128. WEIGHTED AVERAGE MATURITY (WAM): The average maturity of all the securities that comprise a portfolio.
129. YIELD: The current rate of return on an investment security generally expressed as a percentage of the security's current price.
130. YIELD CURVE: A graph showing the relationship at a single point in time between the available maturities of a security or similar securities with essentially identical credit risk and the yields that can be earned for each of those available maturities. A graphical depiction of the term structure of interest rates at any given point in time. Yield curves may be constructed for different instruments.
131. YIELD-TO-CALL: The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.
132. YIELD-TO-MATURITY: The 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.

133. YIELD-TO-WORST: The lowest potential yield that can be received on a bond without the issuer actually defaulting. The YTW is calculated by making worst-case scenario assumptions on the issue by calculating the return that would be received if the issuer uses provisions, including prepayments, calls or sinking funds. This metric is used to evaluate the worst-case scenario for yield to help investors manage risks and ensure that specific income requirements will still be met even in the worst scenarios. Yield-To-Worst is the industry standard utilized in conjunction with a bond's price, coupon, maturity and possible redemption date(s).