

City of Clearwater, FL
Investment Policy
Approved September 9, 2010

(1) SCOPE

This statement of investment policy and guidelines applies to all investments of the City's pooled cash, which includes cash and investment balances of the following funds:

- General
- Special Revenue
- Debt Service
- Capital Projects
- Enterprise
- Internal Service Funds
- Fiduciary Funds

The policies set forth do not apply to the non-pooled cash investments of the Pension and Deferred Compensation Funds of the City of Clearwater, deposits for defeased debt, or assets under Bond Trust Indenture Agreements.

(2) INVESTMENT OBJECTIVES

- A. Safety of principal is regarded as the highest priority in the handling of investments for the City. All other investment objectives are secondary to the safety of capital. Each investment transaction shall seek to first ensure that capital losses are avoided.
- B. The City's investment strategy will provide sufficient liquidity to meet the City's operating, payroll and capital requirements. To accomplish this the portfolio will be "laddered" with monthly maturities except for those months in which significant Ad Valorem taxes are received. To the extent possible, the City will match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than 15 years from the date of purchase. Also, unless specifically matched against a debt or obligation not more than 15% of the portfolio will have a maturity greater than 10 years.
- C. The City's investment portfolio shall be designed with the objective of attaining a

market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

(3) PERFORMANCE MEASUREMENT

The benchmark yield for the operating portfolio will be the weighted average yield determined by using the following maturity distribution and the related U.S. Treasury yields. Treasury yields are considered the benchmark for riskless investment transactions and, therefore comprise a minimum standard for the operating portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein.

Average Treasury Rates Percentage Distribution

Overnight rate	15%
3 month Treasury Bill rate	15%
6 month Treasury Bill rate	15%
1 year Treasury Bill rate	15%
3 year Treasury Note rate	15%
5 Year Treasury Note rate	15%
10 year Treasury Note rate	10%

Total	<hr/> 100%
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Weighted average maturity of benchmark	2.46 years.
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(4) PRUDENCE AND ETHICAL STANDARDS

The standard of prudence to be applied by the investment officer shall be the "Prudent Person" rule, which states: "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 derived." The "Prudent Person" rule shall be applied in the context

of managing the overall portfolio.

(5) AUTHORIZED INVESTMENTS

The City shall limit investments, as authorized in Florida Statutes to:

- a. Direct Federal Government obligations. Investments in this category would include but not be limited to the following: United States Treasury Bills, Notes and Bonds, and securities issued by the Small Business Administration, Government National Mortgage Association (Ginnie Mae), Veterans Administration, and Federal Housing Administration.
- b. Federal Agencies and instrumentalities. Investments in this category would include but not be limited to the following: obligations of the Federal Home Loan Banks System (FHLB) or its distinct banks, Financing Corporation (FICO), the Federal Farm Credit Bank, Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), Student Loan Marketing Association (Sallie Mae), Financial Assistance Corporation and Federal Agriculture Mortgage Corporation (Farmer Mac).
- c. U.S. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- d. Interest-bearing time deposits or savings accounts, in a qualified Public Depository as defined in s. 280.02 Florida Statutes.
- e. Debt issued by the State of Florida or any political subdivision thereof including pools.
- f. Securities of, or other interests 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 obligations of the United States

Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.

- g. Repurchase Agreements and reverse repurchase agreements collateralized by securities otherwise authorized in this policy.
- h. The Local Government Surplus Funds Trust Fund or any intergovernmental investing pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in s. 163.01 Florida Statutes.
- i. Commercial paper of prime quality of the highest letter and numerical rating as provided for by at least one nationally recognized rating service.

(6) Maturity and Liquidity Requirements

- A. The City will maintain a forecast of expected cash outflows and inflows by major categories. For months that the outflows exceed inflows the City will have investments maturing that month in excess of the forecasted deficits.
- B. The City's intention is to keep the weighted average maturity to three years or less. Due to market conditions and cash needs the average maturity may temporarily be greater than three years but no greater than five years.

(7) Portfolio Composition, Risk and Diversification

Assets held shall be diversified to control risk of loss resulting from overconcentration of assets in a specific maturity, issuer, instrument, or dealer/broker, through which these instruments are bought and sold. The following maximum limits apply to the portfolio:

Maturity date	10%	Specific instrument	8%
Specific issuer	40%	Specific dealer/broker	33%
Commercial paper	25%	CMOs and REMIC	33%

Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the Investment Committee.

(8) Authorized Investment Institutions and Dealers

- A. Banks - Certificates of deposit purchased under the authority of this policy will be purchased only from Qualified Public Depositories of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the State Statutes.
- B. Broker/Dealer Approvals and Limitations - Time, practicality, and general business constraints limit the number of investment relationships which can be managed on a regular basis. In most cases, normal investment activity will be limited to no more than ten dealer relationships. A broker/dealer list will be established by the Finance Director or designee. This list will be presented to the Investment Committee for approval. This list will be updated as needed and approved by the Investment Committee.

(9) Third-Party Custodial Agreements

All securities shall be held by a third party safekeeping company. All purchases by the City under this policy shall be purchased using the "delivery versus payment" procedure. For all purchases and sales of securities the third party custodial will require the approval of two individuals authorized by the Finance Director.

(10) Master Repurchase Agreement

All approved institutions and dealers transacting repurchase agreements shall be covered by a Master Repurchase Agreement. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.

(11) Bid Requirements

After the Finance Director or designee has determined the appropriate maturity based on

cash flow needs and market conditions and has selected one or more optimal type of investment, the security in question shall, when feasible and appropriate, be competitively bid. Competitive bids or offerings shall be received from at least three dealers/brokers on all sales or purchases except in situations where:

- A. The security involved is a “new issue” and can be purchased “at the auction”.
- B. The security has a fixed "postal-scale" rate.
- C. The security involved is available through direct issue or private placement.
- D. The security involved is of particular special interest to the city and dealer competition could have an adverse impact with respect to the price and availability to the City.

It is also realized that in certain very limited cases the City will not be able to get three quotes on a certain security. For those cases the City will obtain current market prices from one of the following to determine if the transaction is in the City's best interest:

- 1. Bloomberg Information Delivery System.
- 2. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing.
- 3. Daily market pricing provided by the City's Custody Agent or their corresponding institution.

(12) Internal Controls

The Finance Director shall establish and monitor internal and procedural controls designed to protect the City's assets and ensure proper accounting and reporting of the transactions related thereto. The internal controls will be designed to prevent losses of funds which might arise from fraud, employee error, misrepresentations by third parties, or imprudent actions by employees of the City. All buy and sell communications with the third party safekeeping company will be signed by two individuals authorized to make investment decisions. The internal controls developed under this policy shall be reviewed by the independent auditors as a regular part of their audit of the City.

The Finance Director shall establish an Investment Committee that meets on a regular basis for the purpose of reviewing investment transactions, approving brokers/dealer changes and other investment activities. The Investment Committee members will be the Finance

Director, Assistant Finance Director, Cash & Investment Manager and any other individual appointed by the Finance Director and confirmed by the City Manager.

(13) Reporting

The Finance Director or designee shall report on at least an annual basis the following information on the City's investments:

- A. Securities by class/type.
- B. Book Value
- C. Market Value
- D. Income Earned

(14) Continuing Education

The members of the investment committee will complete no less than 8 hours of continuing educational opportunities on investment practices each fiscal year. The members of the investment committee will have sufficient knowledge and education to invest in any and all of the securities listed above.