

MARTIN COUNTY, FLORIDA



INVESTMENT POLICY

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I. PURPOSE AND SCOPE

The purpose of this policy is to set forth the investment objective and parameters for the management of public funds of Martin County, Florida ("the County"). These are designed to ensure the prudent management of public funds, the availability of operating funds when needed, and generate an investment return competitive with prevailing financial market conditions and in compliance with the guidelines and procedures of the policy.

This investment policy is developed and adopted pursuant to Section 218.415, Florida Statutes. This investment policy applies to all financial assets of the County which are under the direct control of the Board of County Commissioners of Martin County, Florida ("the Board") except (a) any pension funds (including funds governed by Chapters 175 and 185, Florida Statutes), and (b) funds held pursuant to any bond resolution or indenture, unless specifically provided for in such resolution or indenture. This policy does not include any financial assets under the direct control of any of the Constitutional Officers of Martin County; provided, at such time as any funds under the direct control of such Constitutional Officers shall pass to the Board, this policy will become applicable.

Implementation of this investment policy is the responsibility of the Clerk of the Court ("the Clerk"), acting in her capacity as the Chief Financial Officer to the Board, pursuant to Section 28.33, Florida Statutes. The Clerk shall establish investment and accounting procedures to govern the day-to-day investment activities necessary to carry out this investment policy.

II. INVESTMENT OBJECTIVES

SAFETY OF CAPITAL

Safety of capital is the first priority in the handling of investments for Martin 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. Investment in derivative products is not authorized. From time to time securities may be traded for other similar securities to improve yield, maturity or credit risk. For these type 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.

MAINTENANCE OF ADEQUATE LIQUIDITY

Maintenance of liquidity is the second priority in the handling of investments for the County. The investment portfolio shall remain sufficiently liquid to meet all operating and capital requirements that may be reasonably anticipated.

RETURN ON INVESTMENTS

Achieving a fair market return on investment is the third priority in the handling of investments for the County. The investment portfolio shall be designed with the objective of attaining a market rate of return that takes into account investment risk constraints, liquidity needs and economic conditions.

III. PERFORMANCE MEASUREMENT

Standard benchmarks are used to assist in the evaluation of the portfolio's performance. The safety of capital remains as the primary objective. Performance benchmarks provide a reference point to evaluate returns against other investors in the same market.

- A. Investment returns in the cyclical portfolio (1 year maturity or less) are compared to SBA Florida Prime and a 6-month CMT (Constant Maturity Treasury) index.
- B. Investment returns in the core portfolio (maturity greater than a year) may be compared to the 2-year CMT index or the 5-year CMT index as each investment maturity correlates to the respective CMT index. A blended CMT (average of 2-year and 5-year CMT indexes) may be used as the core portfolio average maturity adjusts over time.

IV. PRUDENCE AND ETHICAL STANDARDS

The County adopts the "Prudent Person Rule" which states that: "Investments should 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." The "prudent person" concept discourages speculative risks in the management of the overall portfolio. It attaches primary significance to the preservation of capital and secondary importance to the generation of income and capital gains.

Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. They shall disclose to the Clerk and Comptroller any material interests in financial institutions that conduct business with the Clerk and Comptroller or Board of County Commissioners, and shall further disclose any material personal financial/investment positions that could be related to the performance of the portfolio.

The Clerk and employees of the Clerk's office acting in accordance with this policy, and exercising due diligence, shall not be personally responsible for an individual security's credit risk or market price changes, provided the original investment decisions were made in good faith and that significant negative changes in market value or deteriorating credit are reported to the Board on a timely basis so that appropriate action can be taken to control further adverse developments.

V. AUTHORIZED INVESTMENTS

The following are the guidelines for investments and limits on security types, issuers, and maturities as established by the policy. The Clerk shall have the option to adjust investment holdings and percentages from time to time as market conditions warrant.

The Clerk shall invest and reinvest all funds held by or for the benefit of the County in:

- A. The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes, and with respect to the funds to be invested in such intergovernmental investment pool, all authorized investments set forth in the investment policies of such intergovernmental investment pool, as such investment policies may be amended from time to time. Investment in any single pool shall be limited to 60% of the total portfolio. In addition, the County's participation share in any intergovernmental investment pool shall not exceed 10% of the total balance of that particular fund;
- B. Securities and Exchange Commission registered money market funds with a Moody's credit rating of Aaa, a Standard and Poor's (S & P) credit rating of AAA, or an equivalent rating by a nationally recognized rating agency at the time. Investment in any single money market fund shall be limited to 25% of the total portfolio and total investment in combined money market funds shall be limited to 50% of the total portfolio. In addition, the County's participation share in any single money market fund shall not exceed 5% of the total balance of that particular fund;
- C. Interest bearing time deposits (CDs) or savings accounts in Florida qualified public depositories, as defined in Section 280.02, Florida Statutes. CD maturities shall be limited to three years. The total percentage allocation to this security type shall not exceed 30% at the time of purchase and no more than 10% may be invested with any individual issuer;
- D. Direct obligations of the U.S. Treasury with maximum maturity not to exceed five years. There is no limit on the percentage that may be invested in Treasury issues;
- E. Any investment or security type backed by the full-faith-and-credit of the United States of America, or fully insured by the Federal Deposit Insurance Corporation (FDIC). The maximum maturity may not exceed five years. There is no limit on the percentage that may be invested in this investment type;
- F. Securities issued by Federal Agencies. These security types shall include primary obligations of the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA or "Fannie Mae"), the Federal Home Loan Mortgage Company (FHLMC or "Freddie Mac") and the Federal Farm Credit Bank (FFCB) as well as mortgage-backed securities issued by the Government National Mortgage Association (GNMA) which carry the full-faith-and-credit of the US government. The maximum maturity may not exceed five years. There is no limit on the percentage that may be invested in Federal agencies;

- G. Repurchase agreements having a defined termination date, governed by a Master Repurchase Agreement and fully collateralized by Treasury or Federal agency securities held in the county's name with a third-party safekeeping agent. The term of any repurchase agreement shall not exceed 30 days, unless the agreement allows for periodic withdrawals and is tied to the draw schedule of a specific bond issue (“flex repo”);
- H. Commercial Paper issued by a corporation, a state or state agency or a local government; rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies or one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state. Maximum maturity of any issue shall not exceed 270 days. The total percentage allocation to commercial paper shall not exceed 10% at the time of purchase and no more than 5% may be invested with any individual issuer;
- I. Corporate bonds, debentures and notes that are denominated in United States dollars, rated at least “AA-” by Standard and Poor’s, or “Aa3” by Moody’s Investor Service, or equivalent rating by a nationally recognized rating agency at the time of purchase with a maximum maturity of five years. The total percentage allocation to corporate bonds shall not exceed 10% at the time of purchase and no more than 5% may be invested with any individual issuer; and
- J. Municipal bonds, or other evidence of indebtedness of U.S. cities, towns, school districts, municipal utilities, airports, universities or college or other public debt which carries a minimum “AA-” rating by Standard and Poor’s, or “Aa3” by Moody’s Investor Service, or equivalent rating by a nationally recognized rating agency at the time of purchase. Maturities for these obligations shall not exceed five years. The total percentage allocation to municipal bonds shall not exceed 10% at the time of purchase and no more than 5% may be invested with any individual issuer.

The Clerk may approve temporary modifications to the guidelines from time to time based on liquidity or market conditions or current portfolio composition. Changes to these guidelines must be authorized in writing by the Clerk.

Assets held shall be diversified to control risks resulting from the over concentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which these instruments are bought and sold.

VI. MATURITY AND LIQUIDITY

The investment portfolio shall remain sufficiently liquid to meet all operating and capital requirements that may be reasonably anticipated. To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the Clerk shall

not directly invest in individual securities maturing more than five years from the date of purchase. Investments do not necessarily have to be made for the same length of time that the funds are available.

VII. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

Authorized Clerk staff shall only purchase securities from approved broker/dealers on a delivery-vs-payment basis. In the event that the County uses an investment advisor, the advisor shall conduct due diligence and provide a list of its approved broker/dealers no less than annually.

VIII. THIRD PARTY CUSTODIAL AGREEMENTS

The Board Chairperson and the Clerk will execute an agreement for a custodial account with a depository chartered by the United States Government or the State of Florida. All securities purchased and/or collateral obtained by the Clerk shall be properly designated as an asset of the County and held in an account separate and apart from other assets held by the depository. No withdrawal of such securities, in whole or in part, shall be made from safekeeping except by authorized Clerk staff.

Security 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 to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction.

IX. BID REQUIREMENTS

After the Director of Finance or other authorized Clerk staff has determined the approximate maturity date based on cash flow needs and market conditions, and has analyzed and selected one or more optimal types of investments, a minimum of three (3) banks and/or dealers must be contacted and asked to provide bids (quotes) on the securities. Bids may be obtained by internet (E-mail) or fax, which document the person giving the bid, date and time, pricing and other relevant information. Bids will be released in compliance with Chapter 119, Florida Statutes (Florida Public Records Law).

The bid deemed best to meet the investment objectives set forth in Section II herein shall be selected unless otherwise required by law.

Acceptable current market price providers include, but are not limited to:

1. Bloomberg Information System or other on-line service;
2. The Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing;
3. Daily market pricing provided by the County's custody agents or their correspondent institutions.

X. INTERNAL CONTROLS

The Director of Finance shall establish and monitor a set of written internal controls designed to protect the County's funds and ensure proper accounting and reporting of the securities transactions. Such internal controls shall include, but not be limited to, the following:

- A. All securities purchased or sold will be transferred only under the "delivery vs. payment" (DVP) method to ensure that funds or securities are not released until all criteria relating to the specific transaction are met.
- B. The Director of Finance or authorized Clerk staff will accept, on behalf of and in the name of the County, bank trust receipts or confirmations as evidence of actual delivery of the obligations or securities in return for investment of funds.
- C. Trust receipts or confirmations shall fully describe the various obligations or securities held. The receipt or confirmation shall state that the investment is held in the name of the County.
- D. Securities shall be held by a third-party custodial bank and/or institution or a designated correspondent bank which has a correspondent relationship to the County's third-party custodian.
- E. Other internal controls include:
 - Written procedures for daily responsibilities
 - System backup and cross training
 - Documentation of telephone transactions
 - Adequate separation of duties
 - Supervisory control of employee actions and operations review
 - Performance evaluations and interim and annual reporting
- F. The following positions, or their equivalent, are designated by the Clerk as having the authority to initiate all investment activities:
 - Chief Deputy Clerk
 - Deputy Chief of Operations
 - Director of Finance
 - Assistant Director of Finance
- G. Internal controls shall be reviewed by the County's independent auditors as part of the annual financial audit.

XI. CONTINUING EDUCATION

Authorized Clerk staff shall annually complete eight (8) hours of continuing education in subjects or courses of study related to investment practices and products.

XII. REPORTING

The Clerk shall file monthly investment reports with the Board of County Commissioners. The report shall include securities in the portfolio by class or type, book value, income earned, average yield and portfolio allocation. In addition, on a quarterly basis, market values and performance measures shall be reported. Such report shall be available to the public.

XIII. INVESTMENT MANAGEMENT

Upon approval by the Board, the County may contract with a qualified investment management firm for the management of a portion or all of the accounts. The firm must be registered under the Investment Advisors Act of 1940 and with the State of Florida. This manager may assist in broker/dealer due diligence, securities analysis and selection, competitive bidding, trade execution and reporting. The advisor shall act in a nondiscretionary manner only and may not take possession of County cash or securities at any time.