



Finance Committee Meeting

September 11, 2012

Approve Revised Board Policy for Investments

Item II.

Recommended Action: Approval of Revisions to Board Policy for Investments of JWB Funds

Issue: Periodic Review and Update to Investment Policy as Required by Auditors

Background: The investment policy was developed in 1995, and first updated in February 2002, based on changes recommended by the bank at that time. In 2006, the Finance Committee role and responsibility was formalized in Board policy. In 2008 the Board Chair made recommendations which included investment benchmarks, authorized investments, maturity/liquidity and portfolio composition. The most recent update occurred in 2009, when a modification to maturity/liquidity was made.

The Board Policy regarding investments is recommended for revision to update portfolio composition and improve clarity. This update is based on the County investment policy, and must be reviewed and approved by the Board in accordance with policy. The attached Item H is excerpted from the Board Policy, and is presented in legislative style for discussion. A summary of the changes are as follows:

1. **Policy** - Added section
2. **Scope** - Wording is inserted for specificity
3. **Prudence** – Moved from current #5
4. **Objectives** – Adds a more complete definition
5. **Investment Authority** – Removes current language and redefines
6. **Ethics and Conflicts of Interest** – Added
7. **Authorized Investment Institutions and Dealers** – Moved from current #10 and expanded
8. **Authorized and Suitable Investments** – Re-ordered, with expanded definitions
9. **Maturity and Liquidity Requirements** – JWB remains at two years.
10. **Portfolio Composition** – Three changes: Treasury Obligations and Money Market Funds changed from 100% to 75% based on projected need; Interest Bearing Accounts, Demand Deposits and CD's changed from 25% to 100% based on projected need; original deposits from the Tax Collector and other sources pending transfer to investment accounts. Also, since CD's are included in this group, the percentages are changed to meet the needs for future use.
11. **Risk and Diversification** – This has been edited to state that the Finance Committee will periodically evaluate the diversification strategy rather than annually, which allows for adjustments throughout the year if needed. JWB funds are currently diversified among four entities: BB&T, Regions, Florida Prime (formerly Florida State Board of Administration) and Florida Local Government Investment Trust (FLGIT). The paragraph can be edited to include a minimum number of entities for diversification purposes, or leave as stated.
12. **Safekeeping and Custody** – Title restated and one sentence added for clarity.
13. **Master Repurchase Agreement** - No change
14. **Bid Requirements** – No change
15. **Internal Controls** –No change
16. **Performance Measurement** – Moved from current #4 and removed a sentence which is now in #17
17. **Reporting** – No change
18. **Continuing Education** – Slight clarification regarding personnel included.

H. Investment Policy

1. Policy

The policy of the Juvenile Welfare Board ("JWB") is to invest funds in options which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the JWB and which conform to all state statutes governing the investment of public funds.

21. Scope

This investment policy applies to ~~activities related to all financial assets~~ all surplus funds of JWB. ~~These funds are, which shall be~~ accounted for in the JWB Annual Financial Report.

3. Ethics/ Prudence

The standard of prudence to be applied by the Investment Officer shall be the "prudent investor rule", in accordance with the Government Finance Officers Association, 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 to be derived." The "prudent investor rule" shall be applied in the context of managing all funds.

The Investment Officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately, and that appropriate action is taken to control adverse developments.

42. Objectives

The primary objectives, in priority order, of the Investment Policy are:

- a. Safety: Safety of principal is the foremost objective of the investment program. Investments of the JWB shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. JWB will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions. to minimize risk (safety);
- b. Liquidity: The JWB's investment portfolio will remain sufficiently liquid to enable the JWB to meet all operating requirements which might be reasonably anticipated. to ensure that investments mature when the cash is required to finance operations (liquidity);
- c. Yield: JWB's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the JWB safety and liquidity objectives. and to ensure a competitive rate of return (income).

~~Funds will be invested in accordance with Florida Statutes, Chapter 280 "Security for Public Deposits" and Florida Statutes, Chapter 218.405 "Special districts: investments".~~

53. Delegation of Investment Authority

The Finance Director or designee is ~~designated~~ authorized as the Investment Officer of JWB, and is responsible for investment of surplus funds in accordance with Section 218.415, Florida Statutes. decisions and activities, under the direction of the Director of Contract Management, Finance and Research, the Executive Director, and governed by Board policy. The JWB Board of Directors is responsible for adopting and amending the investment plan embodied in this policy The Finance Director shall develop and maintain written administrative procedures consistent with these policies for the investment program. The investment commitment shall depend on financial and staffing considerations given the amount of revenues available.

65. Ethics/Prudence and Conflicts of Interest

The Finance Director or designee and other authorized personnel 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. These investment officials shall disclose annually, in a written statement to the Executive Director, any material interests in financial institutions with which they conduct business, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Board's investment portfolio.

~~The standard of prudence to be applied by the Investment Officer shall be the "prudent investor rule", in accordance with the Government Finance Officers Association, 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 to be derived." The "prudent investor rule" shall be applied in the context of managing all funds.~~

~~The Investment Officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately, and that appropriate action is taken to control adverse developments.~~

740. Authorized Investment Institutions & Dealers

~~Contracts shall be obtained only with credit worthy institutions and those institutions possessing a certificate of qualified depository with the State of Florida. Public deposits shall only be made in a qualified public depository as established by the Chief Financial Officer of the State of Florida. Approved security broker/dealers consisting of "primary" dealers or regional dealers are those that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). A review of the financial conditions and registration of qualified financial institutions and broker/dealers will be conducted by the Finance Director or designee before a contract is created.~~

86. Authorized and Suitable Investments

~~This investment policy is authorized by the JWB Board of Directors. Consistent with the Florida Statute 218.415, the following investments will be permitted by this policy: All investment services must be acquired in accordance with the rules of the Department of Insurance, Division of Treasury which establish procedures for the administration of the "Florida Security for Deposits Act", which is encompassed in the Florida Statutes.~~

~~Through the course of the fiscal year, available cash may be invested in one of the following securities:~~

- ~~a. State Investment Pool.—~~The Florida Local Government Surplus Funds Trust Fund (SBA) or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in Section 163.01, Florida Statutes.
- ~~b.—~~Collateralized Repurchase Agreement.
- be. U.S. Treasury Obligations. Negotiable direct obligations or obligations the principal and interest of which are unconditionally guaranteed by the U.S. Government. Such securities include, but are not limited to: Treasury bills, notes or bonds, and Treasury strips.
- cd. U.S. Federal Agency Obligations. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by U.S. agencies, provided the full faith and credit of the U.S. Government back such obligations. Such securities include, but are not limited to, the Farmers Home Administration (FmHA) certificates of beneficial ownership, the Federal Financing Bank (FFB) discount notes, notes and bonds,

Federal Housing Administration (FHA) Debentures and Government National Mortgage Association (GNMA) mortgage-backed securities.

- ~~de. Federal Instrumentalities~~ U.S. Government-sponsored enterprises (GSE's). Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by U.S. Government agencies (Federal Instrumentality), which are non-full faith and credit agencies. ~~—Although these securities are not guaranteed by the full faith and credit of the U. S. Government there is an implicit guarantee.~~ Such securities include, but are not limited to, Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal National Mortgage Association (~~FNMA~~ Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), and Student Loan Marketing Association (Sallie Mae).
- ~~e. Non-Negotiable Interest Bearing Savings Accounts, Demand Deposit Accounts or Time Certificates of Deposit.~~ Authorized securities must be in banks or savings associations organized under the laws of the United States and are secured by the Florida Security of Public Deposits Act, Chapter 280, Florida Statutes and not listed with any recognized credit watch information service.
- ~~f. Repurchase Agreements.~~ Those investments whose underlying purchased securities consist of United States Treasury, United States Federal Agency and/or United States Government Sponsored Enterprise securities, and based on the requirements set forth by the Master Repurchase Agreement. All firms with whom the JWB enters into repurchase agreements will have in place an executed Master Repurchase Agreement with JWB. A third party custodian shall hold collateral for all repurchase agreements. Securities authorized for collateral shall have a mark-to-market value of 102 percent during the term of the repurchase agreement.
- ~~gf. Commercial Paper.~~ An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory. Commercial paper is usually issued by companies with high credit ratings which have relatively low risk. The ratings shall be “Prime-1” by either Moody’s or “A-1” by Standard & Poor’s, of A1+ / P1+ (prime commercial paper) or better at the time of purchase.
- ~~g. Certificates of Deposit.~~ Non-negotiable interest bearing time certificates of deposit or savings accounts in banks organized under the laws of the United States and doing business and situated in Florida, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes, and provided that the bank is not listed with any recognized credit watch information service.
- ~~h. Money Market Funds.~~ Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency. The ratings shall be “AAAm” or “AAAg” by Standard & Poor’s. They shall be registered under the Federal Investment Company Act of 1940 and operate in accordance with 17C.F.R.270.2a-7. The share value must equal \$1.00. Underlying securities are obligations of the U.S. Treasury, U. S. Federal Agencies, GSE’s or repurchase agreements with these underlying securities. Investments in Collateralized Mortgage Obligation (CMO’s), Real Estate Mortgage Investment Conduit (REMICs) or other derivative securities are prohibited.
- ~~i. Time deposits.~~ Interest bearing time deposits or savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes.

97. Maturity & Liquidity Requirements

Investments of the JWB will allow for the day-to-day liquidity needs. Therefore, investments will be made in accordance with anticipated cash need and cash flow requirements. JWB shall limit its maximum maturity to two years unless specific authority is given to exceed that limitation.

108. Portfolio Composition

The investment portfolio of the JWB shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the risk constraints and cash flow

characteristics of the JWB. Guidelines for the maximum limit for diversification are as follows: ~~The local government surplus funds Trust Fund or any intergovernmental investment pool as described in Section 8.a.State Investment Pool 75%; Repurchase Agreements 50%; U.S. Treasury Obligations 10075%; U.S. Federal Agency Obligations 75%; Federal InstrumentalitiesU.S. Government-sponsored enterprises (GSE's)75%; Prime Commercial Paper 50%; Non-Negotiable Interest Bearing Savings Accounts, Demand Deposit Accounts or Time Certificates of Deposit 100Certificates of Deposit 25%; Repurchase Agreements 50%; Commercial Paper 50%; and Money Market Funds10075%; and Time Deposits 25%.~~

119. Risk & Diversification

The JWB recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Diversification is a way to control risk. The investment management is expected to be prudent and act in a way to minimize default risk. No single investment transaction shall be undertaken that jeopardizes the total capital position of the JWB.

The Finance Committee will ~~annually~~ periodically evaluate and modify the ~~investment policy diversification- strategy and of~~ the JWB investment portfolio ~~of current investments~~.

~~10. Authorized Investment Institutions & Dealers~~

~~Contracts shall be obtained only with credit worthy institutions and those institutions possessing a certificate of qualified depository with the State of Florida.~~

1244. ~~Third-Party Custodial Agreements Safekeeping and Custody~~

If arrangements are made for the holding of security assets by a third party, the assets and/or collateral shall be designated as JWB funds. Securities will be held by a third party custodian designated by the JWB and evidenced by safekeeping receipts. Such assets shall not be withdrawn by anyone except an authorized JWB staff member. Such transactions between a custodian and an institution involving the sale or purchase of assets by transfer of money shall be made on a "delivery vs. payment" basis.

1312. Master Repurchase Agreement

All authorized institutions involved in direct repurchase agreement transactions on behalf of the JWB shall execute and perform these transactions according to a Master Repurchase Agreement.

1413. Bid Requirement

When purchasing or selling securities, the Director of Finance shall select the security which meets the parameters of this policy, using a competitive bid process when deemed feasible and appropriate. Comparison to current market prices, as indicated by one of the market pricing resources, may also be utilized.

1514. Internal Controls

The Director of Finance shall establish and document a system of internal controls and operational procedures designed to prevent the loss of funds by fraud, employee errors, imprudent actions, and misrepresentations by third parties. A review of such internal controls by independent auditors shall be a part of any financial audit of the JWB.

Bank Trust receipts or safekeeping confirmations will be accepted in return for investment of temporarily idle (surplus) funds, as evidence of actual delivery of the obligations or securities. The

actual obligations or securities can be held by a third-party custodial bank. The receipt should fully describe the obligations or securities held, together with a specific identification number.

Along with adequate separation of duties among Fiscal Management staff, written documentation of telephone or electronic transactions will be maintained.

164. Performance Measurement

The Investment Officer will routinely monitor the investments. The benchmark measurement for performance of investments will be the U.S. Treasury index ~~and the Money Fund Report Averages™~~, comparable in maturity to the average life of the portfolio.

~~The monthly investment reports submitted to the Board shall contain sufficient information to evaluate the monthly performance of the investment program.~~

1715. Reporting

The Director of Finance shall report banking and investment results to the Board on a monthly basis. The monthly investment reports submitted to the Board shall contain sufficient information to evaluate the monthly performance of the investment program. The Annual Financial Report shall reflect the status of JWB's monetary assets, as required by the Governmental Accounting Standards Board and the State of Florida.

1816. Continuing Education

The Director of Finance, ~~the Director of Contract Management, Finance and Research~~, and appropriate staff shall annually complete eight (8) hours of continuing education in subjects or courses of study related to investment practices and products.