City of Deltona

Investment Policy

Effective November 5, 2005

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Revised October 1, 2020

City of Deltona, FL

Investment Policy

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Investment Policy

I. Investment Policy – City Public Funds

A. Purpose

The purpose this Section ~~policy~~ is to set forth the investment objectives and parameters for the management of public funds of the City of Deltona, Florida (hereinafter, the "City"). These policies are designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed and an investment return competitive with comparable funds and financial market indices.

B. Governing Authority

The investment program for City Public Funds shall be operated in conformance with federal, state, and other legal requirements including Section 218.415, Florida Statutes, governing the investment of public funds.

C. Scope

This Section of the City's Investment Policy shall apply to all funds held by the City on behalf of the citizenship of the City of Deltona with the exception of:

1. Firefighters' Pension Plan fund assets;
2. Investments of the City's Section 401(a) and 457(b) deferred compensation plans; and
3. Funds whose uses are restricted by debt covenants; prior contract; or legal, regulatory or other constraints.

Pooling of Funds

Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

D. Investment Objectives

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in **Authorized Investments and Portfolio Composition** section of this Policy;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with the **Authorized Financial Institutions, Depositories and Broker/Dealers** section of this Policy;

- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized;
- If securities owned by the City are downgraded by a nationally recognized ratings organization to a level below the quality required by this Policy, it will be the City's policy to review the credit situation and make a determination as to whether to sell or retain said securities in the portfolio.

b. Interest Rate Risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity;
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this Policy;
- The maximum percent of callable securities (excluding "make whole call" securities as defined in the Glossary) in the portfolio will be 20%;
- The maximum stated final maturity of individual securities in the portfolio will be five years, except as otherwise stated in the Policy;
- The duration of the portfolio will at all times be approximately equal to the duration (typically +/- 20%) of a Market Benchmark, an index selected by the City based on the City's investment objectives, constraints and risk tolerances.

2. Liquidity

The City's investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. To accomplish this, the portfolio will be structured so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds in order to continue to meet short term needs.

3. Yield

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

Securities shall generally be held until maturity with the following exceptions:

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

4. Local Considerations

Where possible, funds may be invested for the betterment of the local economy or that of local entities with the State. The City may accept a proposal from an eligible institution which provides for a reduced rate of interest provided that such institution documents the use of deposited funds for community development projects.

E. Performance Measurement

In order to assist in the evaluation of the portfolio's performance, the City will use a performance benchmark for short-term and long-term portfolios. The use of this benchmark will allow the City to measure its returns against other investors in the same markets. The City uses the following benchmark:

- The State Board of Administration's Local Government Surplus Funds Trust Fund ("SBA Pool") monthly rate of return, the average return on three month U.S. Treasury Bills, or the average rate of Fed funds will be used as a benchmark as compared to the portfolio's book value rate of return for current operating funds.
- For investments that have a longer-term investment horizon, the rate of return or book value yield will be compared to a market benchmark. The Finance Director shall select an appropriate, readily available index to use as a market benchmark. The appropriate index will have a duration and asset mix that approximates the portfolio's, and will be utilized as a benchmark to be compared to the portfolio's total rate of return. The current benchmark being used is the ICE Bank of America / Merrill Lynch 1 – 3 ~~y~~Year **U.S.** ~~t~~Treasury ~~i~~Index. However, this may change from time to time based on the City's needs and risk tolerances.

F. Prudence and Ethical Standards of Care

1. Prudence

The standard of prudence and ethical standards to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this Policy.

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

2. Ethics and Conflicts of Interest
Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interest in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

3. Delegation of Authority
Responsibility for providing oversight and direction in regard to the management of the investment program resides with the Investment Committee, if present, or the City Manager or his/her designee.

Management responsibility for all City funds in the investment program and investment transactions is hereby delegated to the Director of Finance, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The City may employ an investment advisor to assist in managing some of the City's portfolios. Such investment advisor must be registered under the Investment Advisors Act of 1940.

G. Authorized Investments and Portfolio Composition
The City's investments are governed by Section 218.415, Florida Statutes. Within the investments permitted by the Statute, the City seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this Policy and the Statute, the more restrictive parameters will take precedence. Percentage holding limits listed in this section are the percentage holding limits at the time the security is purchased.

Investments should be made subject to the cash flow needs of the City and such cash flows are subject to revisions as market conditions and the City's needs change. However, when the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, the Finance Director or the investment advisor may sell the investment at the then-prevailing market price and place the proceeds into the proper account.

Investments not listed in this policy are prohibited.

The following are the investment types and requirements permitted by this policy.

1. *Investment Types*

a. Florida Local Government Surplus Funds Trust Fund

A maximum of twenty percent (20%) of available funds may be invested in the SBA. As with any other intergovernmental investment pool, it shall be rated “AAAm” or better, by Standard and Poor’s or the equivalent by another rating agency.

b. United States Government Securities

Invest in the negotiable direct obligations or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. Such securities will include, but not be limited to the following:

- Cash Management Bills
- Treasury Securities – State and Local Government Series (“SLGS”)
- Treasury Bills
- Treasury Notes
- Treasury Bonds
- Treasury Strips

A maximum of one hundred percent (100%) of available funds may be invested in United States Government Securities.

c. United States Government Agencies

Invest in bonds, debentures or notes which may be subject to call, issued or guaranteed as to principal and interest by the United States Governments Agencies, provided such obligations are backed by the full faith and credit of the United States Government. Such securities will include, but not be limited to the following:

- Government National Mortgage Association (GNMA)
  - GNMA guaranteed mortgage-backed bonds
  - GNMA guaranteed pass-through obligations
- United States Export – Import Bank
  - Direct obligations or fully guaranteed certificates of beneficial ownership
- Farmer Home Administration
  - Certificates of beneficial ownership
- Federal Financing Bank
  - Discount notes, notes and bonds
- Federal Housing Administration Debentures
- General Services Administration
- United States Maritime Administration Guaranteed
  - Title XI Financing
- New Communities Debentures
  - United States Government guaranteed debentures
- United States Public Housing Notes and Bonds

  - United States Government guaranteed public housing notes and bonds
- United States Department of Housing and Urban Development
  - Project notes and local authority bonds

A maximum of eighty percent (80%) of available funds may be invested in United States Government Agencies. A maximum of twenty-five percent (25%) of available funds may be invested in individual United States Governmental Agencies.

d. Federal Instrumentalities (United States Government sponsored agencies)
Invest in bonds, debentures or notes which may be subject to call, issued or guaranteed as to principal and interest by the United States Government sponsored agencies (Federal Instrumentalities) which are non-full faith and credit agencies limited to the following:

- Federal Farm Credit Bank (FFCB)
- Federal Home Loan Bank (FHLB)
- Federal National Mortgage Association (FNMA)
- Federal Home Loan Mortgage Corporation (Freddie-Macs including Federal Home Loan Mortgage Corporation participation certificates
- Student Loan Marketing Association (Sallie-Mae)

A maximum of ~~sixty~~ eighty percent ~~(60%)~~ (80%) of available funds may be invested in Federal Instrumentalities. A maximum of ~~fifteen~~ twenty-five percent ~~(15%)~~ (25%) of available funds may be invested in individual Federal Instrumentalities.

e. Interest Bearing Time Deposit or Saving Accounts
Invest in non-negotiable interest bearing time certificates of deposit or savings accounts in banks organized under the laws of this state and-or in national banks organized under the laws of the United States and doing business and situated in the State of Florida, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes. Additionally, the bank shall not be listed with any recognized credit watch information service.

A maximum of twenty-five percent (25%) of available funds may be invested in non-negotiable interest bearing time certificates of deposit. A maximum of fifteen percent (15%) of available funds may be deposited with one issuer.

f. Negotiable CD’s
Invest in negotiable certificates of deposit, provided that:

1. The funds are initially deposited in a qualified public depository, as defined in F.S. 280.02, selected by the City;
2. The selected depository arranges for depositing the funds in financial deposit instruments insured by the Federal Deposit Insurance Corporation (FDIC) in

one or more federally insured banks or savings and loan associations, wherever located, for the account of the City

3. The full amount of the principal and accrued interest of each financial deposit instrument is insured by the Federal Deposit Insurance Corporation (FDIC);
4. The selected depository acts as custodian for the City with respect to each financial deposit instrument issued for its account.

A maximum of thirty percent (30%) of available funds may be invested in negotiable CD's. A maximum of five percent (5%) of the portfolio may be invested with any one issuer.

g. Repurchase Agreements

Invest in repurchase agreements whose underlying purchased securities consist of the aforementioned instruments.

A maximum of twenty-five percent (25%) of available funds may be invested in repurchase agreements excluding one (1) business day agreements and overnight sweep agreements.

A maximum of twenty-five percent (25%) of available funds may be invested with any one institution. Invest in repurchase agreements whose underlying purchased securities consist of the aforementioned instruments and collateralization is maintained at a level of at least 102% of the market value of the Repurchase Agreement.

1. Securities used as collateral for Repurchase Agreements will be delivered to the City's custodian;
2. Repurchase Agreements are subject to a Master Repurchase Agreement between the City and the provider of the repurchase agreement. The Master Repurchase Agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA);
3. Financial institutions shall mark the value of the collateral to market at least monthly and increase or decrease the collateral to satisfy the ratio requirement described above;
4. The City shall receive monthly statements of collateral.

h. Commercial Paper

Invest in commercial paper of any United States company that is rated, at the time of purchase, in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a minimum of two nationally recognized statistical rating organizations. If the commercial paper is backed by a letter of credit (LOC), the long term debt of the LOC provider must be rated "A" or better by at least two nationally recognized statistical rating organizations.

A maximum of twenty-five percent (25%) of available funds may be directly invested in prime commercial paper. A maximum of five percent (5%) of available funds may be invested with any one issuer. The maximum maturity may not exceed 270 days.

i. Corporate Notes

Invest in United States dollar denominated senior debt obligations issued by a corporation or bank that have a long term debt rating, at the time of purchase, at a minimum single "A" category by any two nationally recognized statistical rating organizations. If such obligations are rated by only one rating service, such rating shall be a minimum of "AA" category.

A maximum of thirty percent (30%) of available funds may be directly invested in corporate notes. A maximum of five percent (5%) of available funds may be invested with any one issuer.

j. Bankers' Acceptances

Invest in Bankers' Acceptances issued by a domestic bank or a federally chartered domestic office of a foreign bank, which is eligible for purchase by the Federal Reserve System, at the time of purchase, the short-term paper is rated in the highest tier (e.g., "P-1", "A-1" or higher) by a nationally recognized rating agency.

A maximum of twenty-five percent (25%) of available funds may be directly invested in bankers' acceptances. A maximum of five percent (5%) of available funds may be invested with any one issuer. The maximum maturity may not exceed 180 days.

k. State and/or Local Government Taxable and/or Tax-Exempt Debt

Invest in state and/or local government taxable and/or tax-exempt debt, general obligation and/or revenue bonds with a long term debt rating, at the time of purchase, at a minimum single "A" category by any two nationally recognized statistical rating organizations. If such obligations are rated by only one rating service, such rating shall be a minimum of "AA" category. Ratings requirements for short term debt shall be at least "MIG-2" by Moody's and "SP-2" by Standard & Poor's or the equivalent by another nationally recognized statistical rating agency.

A maximum of thirty percent (30%) of available funds may be directly invested in taxable and tax-exempt bonds. A maximum of five percent (5%) of available funds may be invested with any one issuer.

l. Registered Investment Companies (Money Market Mutual Funds)

Invest in shares of no-load money market mutual funds provided such funds are registered under the Federal Investment company Act of 1940 and operate in accordance with 17 C.F.R. S270.2a-7. The money market funds shall be rated

"AAAm" or better by Standard & Poor's or the equivalent by another rating agency and have a constant daily net asset value (NAV) per share of $1.00.

A maximum of one hundred percent (100%) of available funds may be invested in money market funds.

m. Intergovernmental Investment Pool
Invest in intergovernmental investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes. Intergovernmental investment pools shall be rated "AAAm" or better by Standard & Poor's or the equivalent by another rating agency and have a constant daily net asset value (NAV) per share of $1.00. Pools must have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940 and are "no-load" (*i.e.*, no commission or fees shall be charged on purchases or sales of shares) and charge no 12b1 fees.

A maximum of one hundred percent (100%) of available funds may be invested in intergovernmental investment pools.

n. Supranationals
Invest in supranational securities that are unsubordinated obligations issued by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. Long term debt rating at the time of purchase must be "AA" or better by a nationally recognized statistical rating agency.

A maximum of thirty percent (30%) of available funds may be invested in supranational securities. A maximum of ten percent (10%) of available funds may be invested with any one issuer.

The City shall conduct a thorough investigation of any pool or mutual fund prior to making an investment, and on a continual basis thereafter. There shall be a questionnaire developed which will answer the following general questions.

1. A description of eligible investment securities, and a written statement of investment policy and objectives;
2. A description of interest calculations and how interest is distributed and how gains and losses are treated;
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited;
4. A description of who may invest in the program, how often, what size deposit and withdrawals are permitted;
5. A schedule for receiving statements and portfolio listings;
6. Are reserves, retained earnings, etc. utilized by the pool/fund?

7. A fee schedule, and when and how fees are assessed;
8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

Derivatives and Reverse Repurchase

Investments in any derivative products or the use of reverse repurchase agreements are **strictly prohibited.** A "derivative" is defined as a financial instrument the value of which depends on, or is derived from the value of one or more underlying assets or indices or asset values.

H. Maturity and Liquidity

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, the City will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with State Statutes and local ordinances. The City shall adopt weighted average maturity limitations consistent with the investment objectives previously mentioned.

Reserve funds and other funds with longer term investment horizons may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with anticipated use of funds.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio shall be continuously invested in readily available funds such as local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

I. Risk and Diversification

It is the policy of the City to diversify its investment portfolios. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all City funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised periodically by the Finance Director for all funds subject to this Policy.

In establishing specific diversification strategies, the following general policies and constraints shall apply:

- Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector;
- Maturities selected shall provide for stability of income and reasonable liquidity.

For cash management funds:

- Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. Treasury bills;

- Positions in securities having potential default risk (i.e. commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities;
- Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio;
- The diversification requirements included in the **Authorized Investments and Portfolio Composition** section of this Policy are designed to mitigate credit risk in the portfolio.

J. Authorized Financial Institutions, Depositories, and Broker/Dealers

To the extent practical, the Finance Director shall endeavor to complete investment transactions using a competitive bid process whenever possible. The City's Finance Director will determine which financial institutions are authorized to provide investment services to the City. It shall be the City's policy to purchase securities only from authorized institutions and firms.

The Finance Director shall establish procedures for the maintenance of a list of authorized broker/dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence determined by the City. Only firms meeting one of the following requirements shall be eligible to serve as Qualified Institutions:

1. The firm must comply with all of the following requirements.
    - Primary and regional dealers that qualify under Securities and Exchange Commission Rule 15 C3-1 (uniform net capital rule):
    - Capital of no less than $10,000,000;
    - Registered as a dealer under the Securities Exchange Act of 1934;
    - A member of the Financial Regulatory Authority (FINRA);
    - Registered to sell securities in Florida; and
    - The firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive year; or

2. Public Depositories qualified by the Treasurer of the State of Florida, in accordance with Chapter 280, Florida Statutes.

3. Qualified Public Depositories may provide the services of a securities dealer through a Section 20 subsidiary of the financial institution.

4. Direct issuers of commercial paper and bankers' acceptances.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the City, except where the City utilizes an external investment advisor in which case the City may rely on the advisor for selection.

All financial institutions that desire to become qualified bidders for investment transactions (and which are not dealing only with the investment advisor) must supply the Finance Director with a statement certifying that the institution has reviewed Section 218.415, Florida Statutes, as well as the City's investment policy.

External Investment Advisors
Selection of broker/dealers used by an external investment advisor retained by the City will be at the sole discretion of the advisor. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, the investment adviser shall make their best efforts to document quotations for comparable or alternative securities. When purchasing original issue instrument securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price.

K. Settlement, Safekeeping and Third Party Custodial Agreements

1. Delivery vs. Payment
All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible institution prior to the release of funds. Any securities settled under an exception of the above shall be secured or controlled by a written agreement approved by the City Manager.

2. Safekeeping
Securities will be held by a (centralized) independent third-party custodian selected by the City as evidenced by safekeeping receipts in the City's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. Third-Party Custodial Agreements
The custodial relationship shall be governed by a written agreement properly executed by all parties and shall specify, at a minimum that:

- All securities owned and cash held by the City shall be held in the City's, or its nominee's, name in an account separate from all other accounts maintained by the custodian and shall at all times, while in the custody of the Custodian, be designated as an asset of the City.

- The custodian shall accept transaction instructions only from those persons who have been duly authorized by the Director of Finance and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be permitted unless directed by such a duly authorized person.

- The custodian shall, as it pertains to all transactions settled by the custodian, ensure that the City receives good and marketable title to all securities purchased and has immediately available cash for all securities sold on a "delivery vs. payment" basis.

L. Internal Controls

The City shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the Investment Committee, where present, and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. The internal control structure shall be 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.

M. Continuing Education

The Finance Director, as well as any other officials responsible for making investment decisions, must annually complete eight (8) hours of continuing education in subjects or courses related to investment practices and products.

N. Accounting Method and Reporting

1. Accounting Method

Investments will be carried at cost or market value. Gains or losses from investments will be credited or charged to investment income at the time of the sale. Premiums or discounts on securities may be amortized over the life of the securities. The City shall comply with Government Accounting Standards Board (GASB) requirements.

2. Reporting

The Director of Finance shall provide a quarterly investment report including the listing of holdings in the portfolio at cost and market value to the City Manager. This report will then be forwarded to the City Commission.

Schedules in the quarterly report should include but not be limited to the following:

- A listing of individual investments held at the end of the reporting period
- Coupon, discount or earning rate
- Final maturity date on all investments
- Book value and market value

- Income Earned

O. Sale of Securities

When invested funds are needed, in whole or in part, for the purposes originally intended or for more optimal investments, the City may sell such investments at the then-prevailing market price.

P. Preemption

Any provisions of any special act, City Charter, or other law which prohibits or restricts the City from complying with Florida Statute 218.415, or any rules adopted under this Statute, is void to the extent of the conflict.

Q. Audits

The Certified Public Accounting firm performing the City's annual financial audit shall report, as part of the City's annual audit, whether or not the City has complied with Florida Statute 218.415.

R. Policy Considerations

Any investment held prior to the effective date of this Policy that does not meet the guidelines of this Policy shall be exempted from the requirements of this Policy. At maturity or liquidation, such monies shall be reinvested only as provided by this Policy.

S. Approval of Investment Policy

The investment policy shall be formally approved and adopted by the governing body of the City of Deltona and reviewed annually during the budget process.

II. Investment Policy – Deferred Compensation Plans

A. The Plans

The City of Deltona (the "Sponsor") sponsors the City of Deltona 401(a) and 457(b) Retirement Plans (the "Plans") for the benefit of its employees. The Plans are intended to provide eligible employees with the long-term accumulation of retirement savings through contributions to the individual participant accounts within the Plans.

The City of Deltona may utilize ERISA as a resource and/or guide for best practices, and may further utilize ERISA Section 404(c) as a guide to give participants control over the investments in their accounts and to limit the Plans' fiduciaries liability for the investment decisions made by participants. For participants to have control, they must be given the opportunity to choose from a broad range of investment alternatives. Under the 404(c) regulations, there must be at least three different investment options so that employees can diversify investments within an investment category, such as through a mutual fund, and diversify among the investment alternatives offered. In addition, participants must be given sufficient information to make informed decisions about the options offered under the Plans. Participants also must be allowed to give investment instructions at least once a quarter, and perhaps more often if the investment option is volatile. This ("IPS") is intended to cover the selection and monitoring of a broad range of investment options in order for participants to diversify investments within an investment category. Although this IPS may address certain aspects of Section 404(c), it does not address all of the conditions to be satisfied for compliance with such ERISA provision.

Utilizing ERISA as a resource for best practices, the Plans may make available to participants a default investment for employees' automatic contributions, and the Plans intends to qualify such default investment as a DIA (Default Investment Alternative) under the regulations in order for the Plans' fiduciaries to obtain safe harbor relief from fiduciary liability for investment outcomes of the default investment alternatives. There are various requirements under Rule 404c-5 in order for an investment to qualify as a QDIA (Qualified Default Investment Alternative) or DIA. For example, Plans sponsors must place the participant's contributions in only certain types of investments, the participant must receive a notice describing the investment option(s) if the participant has not provided investment direction. The Plans must pass along to the participant material related to the investment, such as prospectuses, and the participant must be given the opportunity periodically to direct his or her investments from the default investment to a broad range of other options. This IPS covers only guidance for the prudent selection and monitoring of a QDIA, and does not address all of the conditions to be satisfied for compliance with 404c-5.

This IPS does not cover Plans whose permissible investment options include employer stock. This IPS also does not cover Plans that offer self-directed brokerage accounts or similar arrangements that enable participants to select investments beyond those designated by the Plans.

The officers, individuals and/or investment working group named in or established under the Plans documents as having responsibility for the management of the Plans' investments are referred to in this IPS as the "Plans Fiduciaries."

B. Purpose Of The Investment Policy Statement

The Plans Fiduciaries have important responsibilities and are subject to standards of conduct because they act on behalf of participants. These responsibilities include:

- Acting solely in the interest of Plans participants and their beneficiaries and with the exclusive purpose of providing benefits to them;
- Carrying out their duties prudently;
- Following the Plans documents;
- Diversifying Plans investments; and
- Paying only reasonable Plans expenses.

This IPS is intended to assist the Plans Fiduciaries in making decisions regarding the Plans' investment options in a prudent manner. To achieve that objective, the IPS outlines the processes for the selection, monitoring and evaluation of the investment options in the Plans. This IPS sets out criteria that may be used by the Plans Fiduciaries as guidance in making decisions regarding the investment options available under the Plans.

Specifically, this IPS:

- Defines the Plans' investment objectives;
- Defines the roles of those responsible for the Plans' investments;
- Establishes investment selection procedures and criteria, and monitoring procedures;
- Provides for appropriate diversification within and among investment vehicles; and
- Describes procedures for handling investment options that fail to satisfy established objectives.

C. Investment Objectives

The Plans' investment options will be selected with the goal of:

- Providing reasonable returns compared to appropriate peer groups and indices, at prudent levels of risk;
- Providing broad range of investments so that employees can diversify investments within an investment category;
- Providing a minimum of three different investment options with differing risk and return characteristics; and
- Prudently managing investment-related costs.

D. Roles And Responsibilities

The Plans Fiduciaries are responsible for:

- Establishing and maintaining this IPS;
- Selecting the investment options;
- Periodically monitoring the performance of the investment options offered by the Plans and making investment changes;
- Hiring and monitoring investment consultants, if applicable; and
- Overseeing participant investment education and communication.

The Plans Fiduciaries may review this IPS periodically, and it will be amended to reflect changes made by the Plans Fiduciaries from time to time.

E. Selection Of Investments

The Plans Fiduciaries are responsible for the selection of the investment options to be made available to participants. This Part discusses the considerations and guidelines for fulfilling that fiduciary duty.

Selection of Investment Categories

The Plans intends to comply with ERISA best practices and as such, intends to provide an appropriate range of asset classes (or "investment categories") that will reasonably span the risk-and-return spectrum, that satisfies the "broad range" criteria of the regulations under ERISA section 404(c) (as a guide), and that is consistent with the investment needs of the participants. These investment categories, and the options chosen to fill those categories, should allow participants to construct portfolios consistent with their individual circumstances, for example, their goals, time horizons and tolerances for risk. To accomplish that goal, the Plans Fiduciaries will select from among the investment categories listed on Appendix A to this IPS. However, where appropriate, the Plans Fiduciaries may include additional investment categories.

Selection of Investment Options

After determining the investment categories to be used, the Plans Fiduciaries are responsible for selecting specific investment options for each of those categories.

As the Plans Fiduciaries engage in the process of selecting the investment options, they may consider many materials, including those that may be provided by their investment consultant or that may be provided by Plans' recordkeeper or other retirement Plans investment provider.

Attached as Appendix B (entitled "Investment Review Scorecard Process") is a current description of the methodology and scoring of investment options that may be used in the process for the selection of investment options for the Plans. The Plans Fiduciaries have reviewed the methodology of the process and have determined that it is appropriate for the Plans and the participants.

Special Considerations for Selection of Target Date Funds: In addition to the methodology described in Appendix B, the Plans Fiduciaries may consider the following additional factors when selecting a target date retirement fund as an investment option in the Plans.

- The investment objective and strategy of the fund as stated in the funds' prospectus. Preference will be given to a fund that is designed so that a fund's mix of investments (e.g. among stocks, bonds and cash investments) automatically change in a way intended to become more conservative as an investor approaches the target date. The fund should shift over time from a mix with more stock investments in the beginning to a mix weighted more toward bonds as the target date approaches.
- The "glide path" for the funds, and the basic assumptions underpinning its construction. These assumptions include determining the use of "through" and/or "to" glide paths. For example, some target dates may not reach their most conservative mix until 20 or 30 years after the target date. Others may reach the most conservative investment mix at or soon after the target date.
- The experience and quality of the management team responsible for the overall fund.
- The overall product cost including the fees charged by the underlying funds and any "wrap" fees charged by the overall manager of the fund.

Special Considerations for Selection of a QDIA: The default investment must be one of the following three types of alternatives that are diversified to minimize the risk of large losses and provide long-term growth.

- A product with an investment mix that changes asset allocation and risk based on the employee's age, projected retirement date, or life expectancy (for example, a lifecycle fund);
- A product with an investment mix that takes into account a group of employees as a whole (for example, a balanced fund); and
- An investment management service that spreads contributions among Plans options to provide an asset mix that takes into account the individual's age, projected retirement date, or life expectancy (for example, a professionally managed account).

In addition, the investment generally cannot hold employer securities (such as employer stock).

It is the intention of the Plans Fiduciaries to maintain written records of decisions relating to the choice and ongoing monitoring of investment options under the Plans. Such records may be in the form of minutes taken of meetings, that note such things, for example, as time and place, attendees, matters discussed, and decisions reached. The written records may include documents or materials used by the Plans Fiduciaries in the decision-making process

F. Investment Monitoring

The ongoing monitoring of investments involves regular and disciplined process. It is the mechanism for confirming that the selection process and its criteria continue to be satisfied and that an investment option continues to be appropriate for participants.

While frequent change is neither expected nor desirable, the process of monitoring investment performance relative to specified guidelines is an ongoing process. Recognizing that short-term fluctuations may cause variations in performance, when monitoring investments under the Plans, the Plans Fiduciaries evaluate investment performance from a long-term perspective.

Monitoring should occur on a regular basis and utilize the same criteria that were the basis of the investment selection decision. It is contemplated, but not mandated, that a formal review will be done at least quarterly. Further, the Plans Fiduciaries should consider any unusual, notable or extraordinary events on a current basis.

If, upon evaluation, an investment option continues to be acceptable, no further action is required. If after evaluation of an option, the Plans Fiduciaries determine that it should be subject to heightened review, the Plans Fiduciaries will take steps to further review, study and/or remedy the deficiency. If over a reasonable period the provider is unable to resolve the issue, termination may result (see Part VII).

Attached as Appendix C (entitled "Investment Selection and Monitoring Process") is a current description of the process that may be used by the investment consultant for reviewing whether an investment option has underperformed and an explanation of the process, which the investment consultant may follow if engaged to provide investment monitoring services. The Plans Fiduciaries have reviewed that process and have determined that it is suitable and appropriate for the Plans and its Participants. Therefore, the Plans Fiduciaries have adopted this process, methodology and scoring system described in Appendices B and C for purposes of monitoring the investment options.

G. Investment Option Termination

The Plans Fiduciaries may give consideration to terminating an investment option if:

- The option significantly underperforms without a justifiable rationale;
- The option fails to achieve performance and risk objectives;
- The option fails to maintain a consistent investment style; and
- The option has been on the "Watch List" for four consecutive quarters.

There are no hard and fast rules for investment option termination. The ultimate decision to retain or terminate an investment option cannot be made by a formula. However, if the investment has consistently failed to adhere to one or more of the above conditions, it is reasonable to presume a lack of adherence going forward. However, the Plans Fiduciaries may consider the investment option's ability to perform in the future when determining whether to retain an investment option.

In addition to those above, other factors may include manager turnover, legal or regulatory proceedings, or material change to investment processes. Of course, the Plans Fiduciaries also may remove any investment option at any time and for whatever reason they deem appropriate, including a determination that the investment is no longer suitable for the Participants.

An investment option to be terminated may be removed using one of the following approaches:

- Remove and replace (map assets) to an alternative investment option.
- Continue the investment option, but add a competing investment option
- Remove the investment option and do not provide a replacement investment option.

Replacement of a terminated option would follow the criteria outlined in Part V, Selection of Investments.

The guidelines in this IPS, and in this Part VII, are to assist, but not bind, the Plans Fiduciaries. In that regard, the Plans Fiduciaries should exercise discretion and considered judgment in the termination and replacement process. It is the intention of the Plans Fiduciaries to maintain written records of decisions relating to the decision of retaining or terminating an investment option.

H. Coordination With The Plans Document

If any term or condition of this IPS conflicts with the Plans, the terms and conditions of the Plans shall control.

The Plans Fiduciaries have reviewed the IPS and agrees that the IPS accurately reflects the intent of the Plans Fiduciaries with regard to the range of investments, objectives and criteria for selection, and evaluation of investment options within the Plans.

APPENDIX A
DEFERRED COMPENSATION INVESTMENT CATEGORIES

Large Cap Value

Large-value portfolios invest primarily in big U.S. companies that are less expensive or growing more slowly than other Large Cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as Large Cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Large Cap Blend (Core)

Large-blend portfolios are fairly representative of the overall U.S. stock market in size, growth rates, and price. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as Large Cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of U.S. industries, and owing to their broad exposure, the portfolios' returns are often similar to those of the S&P 500 Index.

Large Cap Growth

Large-growth portfolios invest primarily in big U.S. companies that are projected to grow faster than other Large Cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as Large Cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). Most of these portfolios focus on companies in rapidly expanding industries.

Mid Cap Value

Some Mid Cap value portfolios focus on medium-size companies while others land here because they own a mix of small-
, mid-, and Large Cap stocks. All look for U.S. stocks that less expensive or growing more slowly than the market. The
U.S. Mid Cap range for market capitalization typically falls between $1 billion-$8 billion and represents 20% of the total capitalization of the U.S. equity market. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Mid Cap Blend (Core)

The typical Mid Cap blend portfolio invests in U.S. stocks of various sizes and styles, giving it a middle-of-the road profile. Most shy away from high-priced growth stocks, but aren't so price-conscious that they land in value territory. The U.S. Mid Cap range for market capitalization typically falls between $1 billion-$8 billion and represents 20% of the total capitalization of the U.S. equity market. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

Mid Cap Growth
Some Mid Cap value portfolios invest in stocks of all sizes, thus leading to a Mid Cap profile, but others focus on midsize companies. Mid Cap growth portfolios target U.S. firms that are projected to grow faster than other Mid Cap stocks, therefore commanding relatively higher prices. The U.S. Mid Cap range for market capitalization typically falls between $1 billion-$8 billion and represents 20% of the total capitalization of the U.S. equity market. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Small Cap Value
Small-value portfolios invest in small U.S. companies with valuations and growth rates below other Small Cap peers. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as Small Cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Small Cap Blend (Core)
Small-blend portfolios favor U.S. firms at the smaller end of the market-capitalization range. Some aim to own an array of value and growth stocks while others employ a discipline that leads to holdings with valuations and growth rates close to the Small Cap averages. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as Small Cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

Small Cap Growth
Small-growth portfolios focus on faster-growing companies whose shares are at the lower end of the market capitalization range. These portfolios tend to favor companies in up-and-coming industries or young firms in their early growth stages. Because these businesses are fast-growing and often richly valued, their stocks tend to be volatile. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as Small Cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Conservative Allocation
Conservative-allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios tend to hold smaller positions in stocks than moderate allocation portfolios. These portfolios typically have 20% to 50% of assets in equities and 50% to 80% of assets in fixed income and cash.

Moderate Allocation
Moderate-allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios tend to hold larger positions in stocks than conservative allocation portfolios. These portfolios typically have 50% to 70% of assets in equities and the remainder in fixed income and cash.

Aggressive Allocation
Aggressive-allocation portfolios seek to provide capital appreciation by investing in three major areas: stocks, bonds, and cash. These portfolios tend to hold larger position in stocks than conservative allocation portfolios. These portfolios typically have 75% to 95% of assets in equities and the remainder in fixed income and cash.

World Allocation
World-allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. While these portfolios do explore the whole world, most of them focus on the U.S., Canada, Japan, and the larger markets in Europe. It is rare for such portfolios to invest more than 10% of their assets in emerging markets. These portfolios typically have at least 10% of assets in bonds, less than 70% of assets in stocks, and at least 40% of assets in non-U.S. stocks or bonds.

Large Foreign
Large Foreign portfolios invest in a variety of big international stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). This style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios typically will have less than 20% of assets invested in U.S. stocks.

Small Foreign
Small Foreign portfolios invest in international stocks that are smaller and less expensive than other stocks. These portfolios primarily invest in stocks that fall in the bottom 30% of each economically integrated market (such as Europe or Asia ex-Japan). This style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios typically will have less than 20% of assets invested in U.S. stocks.

Large Cap Global Stock
World-stock portfolios have few geographical limitations. It is common for these portfolios to invest the majority of their assets in the U.S., Europe, and Japan, with the remainder divided among the globe's smaller markets. These portfolios typically have 20%-60% of assets in U.S. stocks.

Diversified Emerging Markets
Diversified emerging-markets portfolios tend to divide their assets among 20 or more nations, although they tend to focus on the emerging markets of Asia and Latin America rather than on those of the Middle East, Africa, or Europe. These portfolios invest at least 70% of total assets in equities and invest at least 50% of stock in emerging markets.

Real Estate
The funds in this category provide access to the physical commercial real estate markets through investments in public real estate securities. Over time, real estate provides diversification benefits, inflation protection, income, and growth opportunities.

Short/Intermediate-Term High Quality Bond
Short-term bond portfolios invest primarily in corporate and other investment-grade U.S. fixed-income issues and have durations of one to 3.5 years (or, if duration is unavailable, average effective maturities of one to four years). These portfolios are attractive to fairly conservative investors, because they are less sensitive to interest rates than portfolios with longer durations.

Intermediate-Term High Quality Bond
Intermediate-term bond portfolios invest primarily in corporate and other investment-grade U.S. fixed-income issues and have durations of 3.5 to six years (or, if duration is unavailable, average effective maturities of four to 10 years). These portfolios are less sensitive to interest rates, and therefore less volatile, than portfolios that have longer durations.

Intermediate/Long-Term High Quality Bond
Long-term bond portfolios invest primarily in corporate and other investment-grade U.S. fixed-income issues and have durations of more than six years (or, if duration is unavailable, average effective maturities greater than 10 years). Due to their long durations, these portfolios are exposed to greater interest rate risk.

Bank Loan
Bank-loan portfolios primarily invest in floating-rate bank loans instead of bonds. In exchange for their credit risk, these loans offer high interest payments that typically float above a common short-term benchmark such as the London interbank offered rate, or LIBOR.

Mortgage-Backed Securities
Mortgage-backed securities are bonds backed by either residential or commercial mortgages. The Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA) are government-sponsored enterprises (GSE) that issue these debt obligations. Securities issued by these entities are not guaranteed by the full faith and credit of the U.S. government. Government National Mortgage Association (GNMA) securities, which also issue MBS, are guaranteed by the full faith and credit of the U.S. government. MBS are issued through these agencies to finance housing market growth and facilitate liquidity in home mortgages.

Intermediate/Long High Yield Bond
High-yield bond portfolios concentrate on lower-quality bonds, which are riskier than those of higher-quality companies. These portfolios generally offer higher yields than other types of portfolios, but they are also more vulnerable to economic and credit risk. These portfolios primarily invest in U.S. high-income debt securities where at least 65% or more of bond assets

are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below.

Intermediate/Long Foreign Bond
Foreign bond portfolios invest 40% or more of their assets in foreign bonds. Some world bond portfolios follow a conservative approach, favoring high-quality bonds from developed markets. Others are more adventurous, and own some lower-quality bonds from developed or emerging markets. Some portfolios invest exclusively outside the U.S., while others regularly invest in both U.S. and non-U.S. bonds.

Eclectic Fixed Income
Eclectic Fixed Income (Multi-Sector Bond) bond portfolios seek income by diversifying their assets among several fixed- income sectors, usually U.S. government obligations, U.S. corporate bonds, foreign bonds, and high-yield U.S. debt securities. These portfolios typically hold 35% to 65% of bond assets in securities that are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below.

Inflation Protected Bonds
Inflation-protected bond portfolios invest primarily in debt securities that adjust their principal values in line with the rate of inflation. These bonds can be issued by any organization, but the U.S. Treasury is currently the largest issuer for these types of securities.

Emerging Market Bonds
Emerging Market Bond portfolios invest primarily in external debt instruments (external meaning foreign currency denominated fixed income) in the emerging markets. Emerging Market Debt is primarily issued by sovereign issuers and tends to have a lower credit rating than other sovereign debt because of the increased economic and political risk.

APPENDIX B
DEFERRED COMPENSATION PLANS
INVESTMENT REVIEW PROCESS

The **Scorecard System Methodology**™ is used for evaluating investment options for the Deferred Compensation Plans. This Methodology incorporates both quantitative and qualitative factors in evaluating fund managers and their investment strategies. The **Scorecard System** is built around pass/fail criteria, on a scale of 0 to 10 (with 10 being the best) and has the ability to measure active, passive and asset allocation investing strategies. Active and asset allocation strategies are evaluated over a five-year time period, and passive strategies are evaluated over a three-year time period.

Eighty percent of the fund's score is quantitative (made up of eight unique factors), incorporating modern portfolio theory statistics, quadratic optimization analysis, and peer group rankings (among a few of the quantitative factors). The other 20 percent of the score is qualitative, considering manager tenure, the fund's expense ratio relative to the average fund expense ratio in that asset class category, and the fund's strength of statistics (statistical significance). Other criteria that may be considered in the qualitative score includes the viability of the firm managing the assets, management or personnel issues at the firm, and/or whether there has been a change in direction of the fund's stated investment strategy. The following pages detail the specific factors for each type of investing strategies.

Combined, these factors are a way of measuring the relative performance, characteristics, behavior and overall appropriateness of a fund for inclusion into a Plans as an investment option. General fund guidelines are shown in the "Scorecard Point System" table below. The Scorecard Point System is meant to be used in conjunction with our sample Investment Policy Statement, in order to help identify what strategies need to be discussed as a "watch-list" or removal candidate; what strategies continue to meet some minimum standards and continue to be appropriate; and/or identify new top-ranked strategies for inclusion into a Plan.

Further detail of the Scorecard System's weighting and scoring of various factors is available through NFP retirement and the City of Deltona Finance Department.

APPENDIX C
DEFERRED COMPENSATION INVESTMENT SELECTION & MONITORING PROCESS

INVESTMENT SELECTION PROCESS

The particular investment under consideration should meet the following standards for selection:

- Investment performance should be competitive with the median return for an appropriate, style-specific benchmark and peer group.
- Specific risk and risk-adjusted return measures should be reviewed by the Plans Fiduciaries and be within a reasonable range relative to appropriate, style-specific benchmark and peer group.
- It should demonstrate adherence to the stated investment objective, without excess style drift over trailing performance periods, for funds in a similar asset class.
- Fees should be competitive compared with similar investments.
- The investment manager should be able to provide performance holdings, and other relevant information in a timely fashion, with specified frequency.
- The investment, unless it is a passively managed index-based strategy, should not score six or fewer points on the 12-point Investment Review Scorecard.

INVESTMENT MONITORING PROCESS

Based upon objective criteria as described in Appendix B, each fund will be attributed an overall investment score with a maximum of 12 points. A score of six or fewer points will typically result in the fund being placed on a “Watch List.”

The fund can emerge from the “Watch List” by achieving a subsequent score of seven points or higher. If the fund remains on the “Watch List” for four consecutive quarters it will be subject to possible termination from the Plans.

Of course, the Plans Fiduciaries can take other relevant, material facts and circumstances into consideration when monitoring investments, whether or not they are on the “Watch List.

APPENDIX D
GLOSSARY OF INVESTMENT TERMS

AGENCIES. Shorthand market terminology for any obligation issued by a government-sponsored entity (GSE), or a federally related institution. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called “FreddieMac” issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as “FannieMae,” issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as “GinnieMae,” issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

ASKED. The price at which a seller offers to sell a security.

BANKER’S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which “accepts” the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BID. The price at which a buyer offers to buy a security.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

DEBENTURE. A bond secured only by the general credit of the issuer.

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See modified duration).

FEDERAL FUNDS RATE. The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

FEDERAL OPEN MARKET COMMITTEE. A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL GOVERNMENT INVESTMENT POOL. Intergovernmental investment pools such as the SBA or FLSAFE. These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MATURITY. The final date upon which the principal of a security becomes due and payable.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NEGOTIABLE CD. A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

PREMIUM. The difference between the par value of a bond and the cost of the bond, when the cost is above par.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries.

REALIZED YIELD. The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

REGIONAL DEALER. A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues “cash management” bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

VOLATILITY. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.