

CITY OF TALLAHASSEE

NON-PENSION INVESTMENT POLICY

(Commission Policy 234, formerly numbered 610)

Revised: May 27, 2009 / December 15, 2004

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CITY OF TALLAHASSEE

NON-PENSION INVESTMENT POLICY (the “Policy”)

INTRODUCTION

234.01 AUTHORITY

In accordance with Section 51 of the City Charter, the responsibility for administering the investment program of the City resides with the Treasurer-Clerk (or his designee). It shall be the Treasurer-Clerk’s responsibility to insure the proper management, internal controls, safekeeping, and recording of all investment assets held or controlled by the City. No person may engage in any investment transaction with City funds or funds held in a Trust relationship by or for the City, except as authorized by the Treasurer-Clerk. This Policy is promulgated pursuant to and consistent with the provisions of Section 166.261 and Section 218.415, Florida Statutes, and Chapter 51, City of Tallahassee Charter.

Sections 65 and 65.1 of the City Charter created the Sinking Fund Commission. The three appointed members (non-City Commissioners) of the Sinking Fund Commission are, by this Policy, designated as the Investment Advisory Committee of the City. As their responsibilities relate to the assets covered by this Policy, it shall be the duty and responsibility of the Investment Advisory Committee to:

- Confirm the Treasurer-Clerk’s decision to utilize external investment management and approve specific managers on a case-by-case basis, in accordance with Section 234.108 *External Management* of the Core Portfolio.
- Approve the lists of authorized dealers, brokers, and issuers referenced in Section 234.105 *Dealer, Manager and Financial Institution Selection* of the Core Portfolio, as well as any additions to such lists.
- As recommended by the Treasurer-Clerk, approve the designation of a portfolio as a Specialized Portfolio under Section 234.201 of this Policy, and approve the guidelines of each Specialized Portfolio.
- Immediately notify the Treasurer-Clerk in the event any information comes to their attention that may have an adverse effect upon the security or marketability of any of the investments purchased under the provisions of this Policy.
- Recommend any amendments to this Policy to the City Commission.
- Review the City’s Non-Pension Portfolio activity and performance for compliance with this Policy, advising City investment staff as to recommendations relative to said Portfolio activity/performance, and informing the City Commission of unaddressed concerns with the management of the City’s non-pension assets.

234.02 SCOPE AND PURPOSE

All financial assets held or controlled by the City, not otherwise classified as restricted assets requiring separate investing, shall be invested under the guidelines as set forth in this Policy. Pension fund assets are not covered by this policy; they are covered separately by City Commission Policy 236.

Certain portfolios listed below and others, as may from time to time be established, shall be designated as Specialized Portfolios as defined and governed under Section 234.201 of this Policy. For each portfolio designated as a Specialized Portfolio, criteria will be established governing the investment thereof and included as an attachment to this Policy. The Investment Advisory Committee will approve the inclusion of a portfolio under this category and also will approve the governing criteria.

All non-pension investments of the City not classified as Specialized Portfolios shall be included in the Core Portfolio as created and defined by Section 234.101 of this Policy.

Multiple portfolios may be established under the umbrellas of Sections 234.201, Specialized Portfolios and Section 234.101, Core Portfolio. All of these portfolios must comply with the criteria of Sections 234.01 - 234.08 of this Policy and the respective sections, and will be considered when evaluating certain "all-inclusive" parameters set forth herein for each section.

There are times when risks of specific investments may temporarily increase such that the City Treasurer-Clerk may operate under a more restrictive policy. Additionally, at times, exceptions to the Policy may need to be made, as recommended by the City Treasurer-Clerk on a case by case basis, and with the approval of the Investment Advisory Committee.

234.03 PRUDENCE AND ETHICAL STANDARDS

The standard of prudence to be used by the Treasurer-Clerk and his designee(s) shall be the Prudent Person Rule, which states: "Investments should be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment." The Treasurer-Clerk and his designee(s), acting in accordance with established policies and procedures 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 appropriate action is taken to minimize adverse developments. The Prudent Person Rule shall be applied in the context of managing all assets invested under this Policy.

Officers and employees of the City who are involved in the investment process shall refrain from personal business activity which could conflict with State Statutes, City Ordinances, or proper management of the City's investment program, or which could impair their ability to make impartial investment decisions. Investment officials and employees, including members of the Investment Advisory Committee, shall disclose to the City Commission any material financial interests in any investment firms or financial institutions that conduct business with the City and shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

Limits of Liability - City of Tallahassee Resolution 86-R-1454, passed and adopted by the City Commission on November 25, 1986, provides for the defense and indemnification of any committee member who is made a party to any suit or proceeding, other than by an action of the City, or against whom a claim is asserted, by reason of their actions taken within the scope of their service as an appointed member of this committee. Such indemnity shall extend to judgments, fines, and amounts paid in settlement of any such claim, suit, or proceeding, including any appeal thereof. This protection shall extend only to members who have acted in good faith and in a manner that they reasonably believe to be in, or not opposed to, the best interest of the City of Tallahassee.

234.04 SAFEKEEPING AND CUSTODY

Collateral

Collateral for public deposits is regulated by the State of Florida through Florida Statutes, Chapter 280. The City shall not be under any obligation to secure additional collateral beyond the provisions set forth in Chapter 280, except in the case of Repurchase Agreements. Collateral requirements for Repurchase Agreements will be contained in the Master Repurchase Agreement as required under Section 234.109(J) of this Policy.

Custody

All securities purchased by the City under this Policy, except Certificates of Deposits, shall be properly designated as assets of the City of Tallahassee and shall be protected through a

third-party custody agreement. The City shall enter into a formal agreement with an institution of such size and expertise as is necessary to provide the services needed to protect and secure the investment assets of the City.

Certificates of Deposit may be held in safekeeping at the issuing financial institution or may be held in physical custody by the City. The Investment Procedures and Internal Controls shall provide for proper authority and security for both of these custody situations.

The City shall establish appropriate safekeeping procedures so that, whenever possible, all investments are custodied in accordance with General Accounting Standards Board Statement Number 3, Paragraph 68, Category (a), which specifies that all securities are insured or registered, or held by the City or its agent, in the City's name.

Delivery Versus Payment and "Free" Delivery

Under normal circumstances, all securities under this Policy shall be purchased using the "delivery versus payment (DVP)" process. The Investment Procedures and Internal Controls shall provide for appropriate authorization and security if it is ever necessary to carry out security transactions on a "free" delivery basis, or to have securities held by the broker/dealer for a temporary period. Examples of reasons where "free" delivery might be necessary might include, but not be limited to:

- To temporarily invest funds with a fiscal agent to facilitate timely payment of the City's debt or to facilitate the purchase of securities in connection with the funding of an escrow account to refund City debt.

234.05 REPORTING

The Treasurer-Clerk's Office shall generate investment reports for internal management purposes on a periodic basis, but not less frequently than quarterly. . Quarterly investment reports shall be prepared and submitted to the Sinking Fund Commission members, with information sufficient to provide for a comprehensive review of investment activity and performance for the quarter. The information submitted shall include, at a minimum, a listing of the securities in each portfolio by type, book value, market value, and accrued interest. The quarterly report shall be reviewed in detail by the Investment Advisory Committee.

For the purpose of calculating and reporting portfolio percentages as set forth in this Policy, such percentages will be based on the amortized book value of the individual securities and/or categories versus the total par value of the related portfolio. Securities pledged as collateral under a repurchase agreement or owned as part of the City's securities lending program shall not be included when determining portfolio percentages for the particular asset type.

The Treasurer-Clerk's Office shall provide the Department of Management and Administration timely transaction data as necessary to record and document investment activity.

The Treasurer-Clerk's Office shall provide, to the external and internal auditors and to the Department of Management and Administration, such annual reports as are requested for the purpose of developing and supporting the Annual Financial Statements of the City.

The Treasurer-Clerk's Office shall provide other such reports and information as deemed reasonable, upon request, from other internal and external sources.

234.06 INTERNAL CONTROLS

The Treasurer-Clerk shall establish, and document in writing, a system of internal controls to insure that the financial assets of the City are properly safeguarded, managed, and accounted for. These internal control procedures shall address, at a minimum:

- Separation of incompatible functions
- Delegation of authority

- Proper design and maintenance of documentation and records
- Controlling access to assets
- Reconciling and reporting

As required by Florida Statute 218.415(13), the internal controls shall be reviewed, at least annually, by the City's external auditors, as part of the required financial audit.

234.07 EXISTING INVESTMENTS

Any investments or portfolios currently held that do not meet the guidelines of this Policy shall be exempted from the requirements of this Policy. At maturity or liquidation, the proceeds of securities so invested shall be reinvested only as provided for in this Policy. The City Treasurer-Clerk may take a sufficient period of time to adjust the existing Portfolios to the provisions of the Policy so as not to require the premature liquidation of any investment.

From time to time, investments or portfolios purchased within the guidelines of this Policy may subsequently fall outside the Policy guidelines. Such investments or portfolios shall be exempted from the terms of this Policy; however, the Treasurer-Clerk shall use discretion in determining whether to retain or dispose of the investments. At maturity or liquidation, the proceeds of securities so invested shall be reinvested only as provided for in this Policy.

234.08 EFFECTIVE DATE

This Policy shall become effective immediately upon its adoption by the City Commission.

CORE PORTFOLIO

234.101 SCOPE AND PURPOSE

It is the intent of the Core Portfolio (the "Portfolio") to provide the Treasurer-Clerk sufficient latitude to effectively manage the City's unrestricted financial assets so as to meet the objectives and to control the risks as outlined herein.

234.102 OBJECTIVES

The foremost objective of the Portfolio is the preservation of capital. The second objective of the Portfolio is to provide sufficient liquidity to meet the budgeted operating and capital needs of the government, and to meet other cash requirements as might reasonably be expected. The third objective of the portfolio is to maximize return within the risk levels established by the safety and liquidity objectives.

The Portfolio will be actively managed (as opposed to required to be held to maturity), but will be structured, at the time of each purchase, so that, if required, all securities could be held to maturity. Trading losses may be incurred, from time to time, in order to improve the structure of the Portfolio, given market expectations.

234.103 RISK DIVERSIFICATION AND PORTFOLIO COMPOSITION

The City recognizes that investment risks can result from issuer defaults, market price changes, changes in credit rating, reinvestment of principal or interest, or various technical complications leading to temporary illiquidity. Portfolio diversification and maturity limitations are employed as the primary methods of controlling risk. Amortized cost shall be the basis for determining portfolio percentages as required for the Portfolio.

Issuer and Credit Risk

The structure of the Portfolio is designed to minimize credit risk. The majority of the securities held will be those of the highest available credit quality ratings. These will include state pools, U.S. Government (AAA) securities, and commercial paper of only the highest applicable rating.

To further limit the City's risks against possible credit losses, a maximum of 5% of the total Portfolio may be held at any one time in all securities of any corporate entity, inclusive of commercial paper, medium term notes, or corporate notes and bonds. Other issuer limitations are defined for specific categories of securities in Section 234.109 *Authorized Investments*.

For the purpose of this Policy, the "top nationally-recognized rating agencies" for corporate and municipal securities are Moody's Investors Service, Standard & Poor's, and Fitch Ratings.

Maturity and Interest Rate Risk

To meet the day-to-day operating needs of the City and to provide the readily-available cash to meet unforeseen temporary cash requirements, the Portfolio shall maintain in liquid investments (defined open repurchase agreements, negotiable certificates of deposit, banker's acceptances, commercial paper, U.S. Treasury direct and agency obligations, all having a maturity of 90 days or less, and government sponsored pools (as defined in Section 234.109, Section II.A.1.) and enhanced cash (as defined in Section 234.109, Section 11.C), a minimum balance equal to one-twelfth of the then-current fiscal year's budgeted operating expenditures.

The City has established maturity limitations for each investment category identified as an authorized investment for the City in Section 234.109 *Authorized Investments*. In addition, the normal duration range of the Portfolio is defined as .5 years to 2.5 years. Unusual market or economic conditions may mandate moving the Portfolio outside of this range.

Maturity limitations have been established based on the perceived risk inherent in the various categories. It is the City's desire to define maturity parameters that, in addition to providing

sufficient liquidity to meet any immediate and short-term cash needs, allows opportunity to take advantage of the yield curve for funds not needed for some period of time.

Because of the City's pooled cash/investment process, forecasting cash flows in minute detail and matching investment maturities accordingly is generally not necessary. Even though a detailed level of matching is not necessary, to the degree possible, significant cash needs or cash inflows will be considered and investment maturity decisions made accordingly.

For the purpose of meeting the maturity limitations, adjustable rate securities shall be measured on the basis of the period elapsed between interest-rate re-set dates.

The maturity constraints set forth for this Portfolio shall not apply to securities assembled and held in escrow accounts in connection with defeased bonds.

Market Volatility

By establishing maturity limitations on individual securities, by category, and on the overall Portfolio, the City acknowledges its understanding that the longer out on the yield curve investments are placed, the greater the potential for price volatility. In an additional effort to provide for the protection of capital, a volatility range is established wherein the market value of the overall portfolio should remain within a range of +/- 5% from the par value of the Portfolio. If the market value moves outside of this range, the Investment Advisory Committee shall be consulted and a decision made relative to maintaining the deviation or taking action to move the Portfolio back within the range.

234.104 PERFORMANCE MEASUREMENT

The Portfolio shall be designed to attain, at the minimum, a market-average rate of return for each rolling 12-month period, taking into account the investment risk constraints as discussed in Section 234.103 *Risk Diversification and Portfolio Composition*.

A "market rate of return" for purposes of this Portfolio is defined as the return calculated using a Performance Test, which identifies indices used to evaluate the performance of this Portfolio. This Test compares the Portfolio to a similarly constructed, though passive, market portfolio, to determine the effectiveness of the investment staff's active management decisions.

In addition, a Structure Test has been constructed utilizing a "normal portfolio," in order to evaluate the value added through the investment staff's repositioning of the Portfolio in anticipation of or response to movements in interest rates.

Refer to Attachment "A" for detailed descriptions of both of the above referenced tests and related indices. These measurements, developed by the Treasurer-Clerk, will periodically be reviewed by the Investment Advisory Committee, to determine the applicability of the indices and to recommend changes as needed.

234.105 DEALER, MANAGER AND FINANCIAL INSTITUTION SELECTION

Certificates of deposit purchased under the authority of this policy will be purchased only through Qualified Public Depositories of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the State Statutes.

Repurchase agreements shall be negotiated only with firms approved by the Investment Advisory Committee in accordance with Section 234.01 *Authority* of this Policy. Any firm with whom the City enters repurchase agreements must have executed the City's Master Repurchase Agreement in accordance with Section 234.109 *Authorized Investments*.

For broker/dealers of other investment instruments for direct purchase, the City shall utilize only primary dealers, except as specifically otherwise authorized by the Investment Advisory Committee.

Before engaging in investment transactions with a broker/dealer, the Treasurer-Clerk shall have received from said firm a signed Certification Form (Attachment "B") attesting that the individual responsible for the City's account with that firm has reviewed the City's Investment Policy and that they agree to undertake reasonable efforts to preclude imprudent transactions involving City funds.

The City does not support the “Principles and Practices for Wholesale Financial Market Transactions” adopted by the Federal Reserve Bank of New York and several broker/dealer and investment banking firms, and will not enter into any agreement that refers to or incorporates by reference these Principles.

234.106 SECURITY SELECTION PROCESS

When purchasing or selling securities, the Treasurer-Clerk or his designee(s) shall select the security which provides the highest rate of return within the parameters and given the current objectives and needs of the City's Portfolio. For most situations, the City shall utilize the competitive bid process. Selection by comparison to a current market shall be utilized when, in the judgment of the investment staff, competitive bidding would inhibit the selection process.

The Investment Internal Control Procedures required under Section 234.06 *Internal Controls* will provide specific details for how and when each of these methods shall be utilized.

234.107 DERIVATIVE SECURITIES

Derivative securities are defined by Florida Statutes, Chapter 218.415, as “a financial instrument the value of which depends on, or is derived from the value of one or more underlying assets, index, or asset values.” Utilizing this definition, investment in derivative securities in this Portfolio is limited to investments with the following characteristics, except as specifically provided elsewhere in this Policy:

- Must have a stated final maturity date at purchase of not longer than 5 years; and
- Must mature at par value.

The securities of the issuer must be authorized investments of the City as defined for this Portfolio. Any security that creates artificial volatility as compared to the underlying security, or to the market for a similar security, is prohibited. Specifically, the use of inverse floating rate notes, reverse repurchase agreements and other forms of leverage is prohibited.

If it is ever determined to be prudent and to the City's benefit to utilize derivatives, outside of the parameters of this Policy, in connection with the issuance or management of debt, those

Instruments will fall under the City's Debt Policy and will be held as Specialized Portfolios as defined in Section 234.201 of this Policy.

234.108 EXTERNAL MANAGEMENT

The City may utilize external investment managers, on both a separate account and co-mingled basis, to assist with management of the Portfolio, when determined by the Treasurer-Clerk to be the City's best interest to do so. External management may be employed in situations where, due to limitations in the areas of staff time or expertise or the volume of securities available to the Portfolio, such outside resources would be in a better position to overcome such limitations. External management may also be employed to provide additional diversification, particularly when market conditions or anticipated liquidity requirements lead to concentration of assets in a limited range of the yield curve. External management may be provided through the utilization of government-sponsored pools, fixed income money market funds, mutual funds, or other fixed income managers.

The securities to be purchased by the external manager on behalf of the City, or held by the fund in which City assets are invested, must be in compliance with the constraints of this Policy as relates to maturity, asset category limits/weights and credit ratings.

The average duration of the funds managed by any one external manager on behalf of the City, as part of the Portfolio, shall not exceed 4 years.

Section 234.109 *Authorized Investments* defines specific parameters for each potential category of external management.

234.109 AUTHORIZED INVESTMENTS

I. Internally Managed Investments

A. United States Government Securities

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 Inflation Protection Securities (TIPS)
1. Minimum Portfolio percentage for these instruments, inclusive of all types, shall be 20%.
 2. In the event the balance so invested falls below 20%, the first available monies, after the liquidity provisions of Section 234.103 *Risk Diversification and Portfolio Composition* and the primary depository requirements have been met, shall be used to restore the required balance.
 3. Maximum maturity at time of purchase shall be 7 years with a total average maturity for this category not to exceed 3.5 years.

B. United States Government Agencies

Bonds, debentures, notes or callables issued or guaranteed by the United States Government’s agencies, provided such obligations are backed by the full faith and credit of the United States Government. This includes adjustable and fixed rate mortgage-backed securities. Such securities will include, but not be limited to the following:

- 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
- FDIC insured corporate notes (TLGP)
- Government National Mortgage Association (GNMA)
 - GNMA guaranteed mortgage-backed bonds
 - GNMA guaranteed pass-through obligations
- 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

C. United States Sponsored Agencies (Federal Instrumentalities)

Bonds, debentures, notes or callables issued or guaranteed by United States Government sponsored agencies (Federal Instrumentalities), which are non-full faith and credit agencies. This includes adjustable and fixed rate mortgage-backed securities. Sub-prime, Alt-A and other non-first lien mortgage securities are prohibited. Permitted adjustable interest rate securities are to only adjust to the US treasury indices. These are limited to the following:

- Federal Farm Credit Bank (FFCB)
 - Federal Home Loan Bank or its City banks (FHLB)
 - Federal National Mortgage Association (FNMA)
 - Federal Home Loan Mortgage Corporation (Freddie-Macs) including Federal Home Loan Mortgage Corporation participation certificate
 - Tennessee Valley Authority (TVA)
1. Maximum Portfolio percentage for these instruments, inclusive of all types, shall be 40%.
 2. No more than 20% of the Portfolio shall be invested in the securities, inclusive of all type securities, of any one Agency issuer.
 3. Maximum maturity at purchase shall be 7 years with a total average maturity for this category, at any one time, not to exceed 3.5 years.
 4. Floating rate notes will only be purchased utilizing the parameters established under Section 234.107 *Derivative Securities*.

D. Corporate Fixed Income Securities

Includes both taxable and tax exempt coupon bonds and notes, medium-term notes, discount notes, and variable-rate securities, issued by any corporation in the United States, provided that such instrument is rated at least A1/A+.

1. The Portfolio may own no more than \$5,000,000 of such instruments issued by any one corporation at one time. In no event shall the City own an amount greater than 5% of a total issue.
2. Maximum Portfolio percentage for corporate fixed income securities shall be 15% of the total Portfolio.
3. Maximum maturity at purchase shall be 5 years. The total average maturity for all corporate fixed income securities held at any one time shall not exceed 2.5 years.
4. Adjustable rate securities will only be purchased utilizing the parameters established under Section 234.107 *Derivative Securities*.

E. Municipal Fixed Income Securities

Includes both taxable and tax exempt general obligation and/or revenue bonds - coupon bonds and notes, medium-term notes, discount notes, and variable-rate securities, issued by any state or local government in the United States, provided that such instrument is rated at least "Aa" by Moody's and "AA" by Standard & Poor's for long-term debt, or rated at least "MIG-2" by Moody's and "SP-2" by Standard & Poor's for short-term debt.

1. The Portfolio may own no more than \$5,000,000 of such instruments issued by any one corporation at one time. In no event shall the City own an amount greater than 5% of a total issue.
2. Maximum Portfolio percentage for municipal fixed income securities shall be 10% of the total Portfolio.
3. Maximum maturity at purchase shall be 5 years. The total average maturity for all corporate fixed income securities held at any one time shall not exceed 2.5 years.
4. Adjustable rate securities will only be purchased utilizing the parameters established under Section 234.107 *Derivative Securities*.

F. Commercial Paper

Both taxable and tax exempt, issued in the United States by any corporation or municipality, provided that: a corporate instrument is rated, at the time of purchase, "Prime-1" by Moody's and "A-1" by Standard & Poor's (prime commercial paper) and a municipal instrument carries the highest rating provided by a nationally recognized rating agency. 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 rating agencies.

1. The Portfolio may own no more than \$10,000,000 in commercial paper issued by any corporation.
2. Maximum Portfolio percentage for taxable commercial paper shall be 30% of the portfolio. Maximum Portfolio percentage for banker's acceptances and taxable commercial paper combined shall be 40% of the portfolio
3. Maximum maturity shall not exceed 270 days from the time of purchase.

G. Bankers' Acceptance

Issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, at the time of purchase, the short-term paper is rated, at a minimum, "P-1" by Moody's Investors Services and "A-1" Standard & Poor's.

Exceptions to the above, as suggested by the Treasurer-Clerk and approved and, from time to time as necessary, amended by the Investment Advisory Committee, are shown on Attachment "E."

1. The Portfolio may own no more than \$5,000,000 of banker's acceptances issued by any one depository institution at one time.
2. Maximum Portfolio percentage for banker's acceptances shall be 30%. Maximum Portfolio percentage for bankers acceptances and commercial paper combined shall be 40%.
3. Maximum maturity shall not exceed 270 days from the time of purchase.

H. Non-Negotiable Certificates of Deposit

Issued by Florida Qualified Public Depositories as identified by the State Treasurer's office, in accordance with Florida Statutes Chapter 280.

1. The Portfolio may own no more than \$30,000,000 in certificates of any one depository institution at one time.
2. Maximum Portfolio percentage for certificates of deposit shall be 20%.
3. Maximum maturity on any certificate shall be 2 years from the time of purchase, with a total average maturity, at any point in time, for all certificates held not to exceed 1 year.

I. Mortgage and Asset-Backed Securities

Government National Mortgage Association (GNMA), FNMA, and FHLMC pass-through securities

1. The maximum Portfolio percentage for any one GNMA, **FNMA**, or **FHLMC** pool is 5%.
2. Maximum Portfolio percentage for any one issuer shall be 15%.
3. Maximum maturity at purchase for any GNMA, **FNMA**, or **FHLMC** security shall be 15 years.

Adjustable-Rate Mortgages (ARMs)

1. The Portfolio may invest in adjustable-rate mortgages either directly or through external management as provided in Section 234.108 *External Management*.
2. The Portfolio shall only directly invest in mortgages issued by the Government National Mortgage Association, the Federal National Mortgage Association and the Federal National Home Loan Mortgage Association.
3. The maximum Portfolio percentage for ARMs securities of any one issuer is 5%.
4. The maximum Portfolio percentage for all ARMs, inclusive of direct purchases and those placed through and mutual funds, shall be 15%.

J. Repurchase Agreements

Purchased only from dealers included on Attachment "C," a list of dealers developed by the City Treasurer-Clerk, and approved and amended, from time to time as necessary, by the Investment Advisory Committee. Any firm through whom the City transacts repurchase agreements must have on file with the City a fully executed copy of the City's Master Repurchase Agreement, included here as Attachment "D."

1. Repurchase Agreements shall be collateralized only by securities of the United States Government, United State government Agencies, and Federal Instrumentalities.
2. No more than \$20,000,000 can be placed with any one dealer, inclusive of all type repos (open, term) at one time.
3. Maximum Portfolio percentage is 50%.

4. Maximum maturity at purchase shall not exceed 180 days with a total average maturity, for all repos held at any point in time, of not greater than 60 days.

K. Stripped U.S. Treasury, Agency or Instrumentality Fixed Rate Securities

1. Any stripped securities purchased must be the actual securities. No trust receipts or other third-party (trademark) programs representing stripped securities are acceptable for purchase as part of the Portfolio.
2. Both the principal-only (PO) and interest-only (IO) portions of any stripped securities are authorized for purchase as part of the Portfolio. Purchase of IO strips is limited to non-callable securities.
3. The maximum Portfolio percentage for stripped securities shall be 5%.
4. Maximum maturity at purchase for any stripped security shall be 7 years.

L. Guaranteed Investment Contracts (GICs)

GICs only with insurance companies rated in the highest category by AM Best Rating System/or a comparable nationally recognized rating service.

1. Fixed Rate GICs - Maximum maturity from purchase of one year. Variable Rate GICs - Maximum maturity from purchase of 5 years.
2. The Portfolio may own no more than \$10,000,000 in contracts with one company at one time.
3. Maximum Portfolio percentage at any point in time shall be 5%.

M. Investment Agreements

Investment agreements only with financial institutions on Attachment "F," a list of originators developed by the City Treasurer-Clerk and approved and amended, from time to time as necessary, by the Investment Advisory Committee.

1. If collateralized, the collateral securing the investment agreement shall be limited to those securities authorized for purchase by this policy.
2. Maximum Portfolio percentage at any one time shall be 10%.
3. The Portfolio may own, at one, time, no more than \$10,000,000 in investment agreements from any one originator.
4. Maximum maturity shall be one year from the time of purchase.

II. Externally Managed Investments

In no event shall the City's participation in any one fund or with any one manager, as provided under this section, exceed 15% of the total balance in the fund, or the total funds managed by the manager in the same discipline in which the City's funds are invested.

A. Government-Sponsored Pools

1. The following intergovernmental investment pools, and other fixed-income pools that may be created from time to time, authorized pursuant to (a) the Florida Interlocal Cooperation Act, as provided in Florida Statutes, Chapter 163.01, (b) Investment of Local Government Surplus funds, as provide in Florida Statutes, Chapter 218.40, and (c) Investment of Certain Funds,

Chapter 17.61, may be utilized for investment by the Portfolio, these include, but are not limited to:

- a. State of Florida
 - Special Purpose Investment Account (SPIA)
 - Local Government Surplus Funds Trust Fund (SBA LGIP)
 - b. Florida League of Cities
 - FMIvT High Quality Government Fund
 - FMIvT High Quality 1-3 Year Bond Fund
 - FMIvT High Quality Bond Fund
 - c. Florida Association of Counties
 - Florida Trust Day-to-Day Fund
 - Florida Trust Intermediate Fund
2. For pools with a maximum average maturity of 1 year or less, the maximum Portfolio percentage per pool at any one time shall be 50%. Exception: temporary investment of bond proceeds or other extraordinary receipt of funds, until permanent investment is made.
 3. For pools with an average maturity of greater than 1 year and which offer daily liquidity, the maximum Portfolio percentage per pool at any one time shall be 40%.
 4. For pools with an average maturity of greater than 1 year and which do not offer daily liquidity, the maximum Portfolio percentage per pool at any one time shall be 20%.
 5. For all government - sponsored pools combined the maximum portfolio percentage at any one time shall be 80%.

B. Fixed Income Money Market Funds

1. The Portfolio can only invest in the securities of or other interests in, open-end and close-end management type investment companies or investment trusts registered under the Investment Company Act of 1940 and having the highest quality rating from a nationally-recognized rating agency.
2. Any fund in which the Portfolio invests must maintain a constant \$1.00 net asset value.
3. The maximum Portfolio percentage that shall be invested in any one fund is 20%.
4. The maximum Portfolio percentage for this category is 50%.

C. External Enhanced Cash Managers

This category includes accounts established for the purpose of providing an investment alternative to government-sponsored pools. Such accounts are to be separate funds to insure that liquidity is dependent on the underlying investments and is not limited by pool restrictions. Such accounts are to be designed to improve diversification of the City's investment options and shall be subject to the following maturity and liquidity restrictions.

Government Securities shall have a final maturity of 3 years or less from the date of purchase. Non-Government Securities shall have a final maturity of 2 years or less from the date of purchase. The overall dollar weighted average maturity of the portfolio shall not exceed 90 days. Reset days will be used to calculate the weighted average maturity of variable rate securities in the portfolio. The dollar-weighted average maturity of the portfolio without regard to the reset date of any variable rate securities shall not exceed 365 days. The maturities of the underlying securities of a repurchase agreement will follow the requirements of the Master Repurchase Agreement.

The Treasurer-Clerk or designee shall determine the approximate amount of funds required to meet the day-to-day expenditure needs of the City. The intent shall be for all amounts to be fully invested; however, any funds in the custodial account not otherwise invested will be “swept” each night into a fully collateralized repurchase agreement or money market fund.

Guidelines for enhanced cash investments are detailed in Section III – Enhanced Cash Guidelines.

D. Other External Fixed-Income Managers

This category would include fixed-income mutual funds and other outside firms that would manage funds both on an individual account basis and in co-mingled funds.

1. The maximum duration of a fund or account in which the Portfolio invests pursuant to this section shall be 4 years.
2. The maximum Portfolio percentage that shall be invested in any one fund or with any one manager is 15%.
3. Any funds or managers to be utilized pursuant to this category will be recommended by the Treasurer-Clerk and approved by the Investment Advisory Committee on a case-by-case basis.
4. The maximum Portfolio percentage for this category is 30%.

III. Enhanced Cash Guidelines

A. United States Government Securities

1. Maximum Portfolio percentage for these instruments, inclusive of all types, shall be 100%.
2. Maximum maturity at purchase shall be 3 years.

B. United States Government Agencies

1. Maximum Portfolio percentage for these instruments, inclusive of all types, shall be 100%.
2. No more than 25% of the Portfolio shall be invested in the securities, inclusive of all type securities, of any one Agency issuer.
3. Maximum maturity at purchase shall be 3 years.

C. Federal Instrumentalities (United States sponsored agencies)

1. Maximum Portfolio percentage for these instruments, inclusive of all types, shall be 100%.

2. No more than 25% of the Portfolio shall be invested in the securities, inclusive of all type securities, of any one Agency issuer.
3. Maximum maturity at purchase shall be 3 years.

D. Corporate Fixed Income Securities

1. Maximum Portfolio percentage for corporate fixed income securities shall be 25% of the total Portfolio.
2. Maximum portfolio percentage invested with any one sector shall be 10%.
3. Maximum portfolio percentage invested with any one issuer shall be 5%.
4. Maximum maturity at purchase shall be 2 years.
5. In no event shall the City own an amount greater than 5% of a total issue.

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

1. Maximum Portfolio percentage for taxable and tax-exempt General Obligation bonds shall be 25% of the total Portfolio.
2. Maximum portfolio percentage invested with any one issuer shall be 10%.
3. Maximum maturity at purchase shall be 2 years.

F. Commercial Paper

1. Maximum Portfolio percentage is 50%
2. Maximum portfolio percentage invested with any one sector shall be 25%.
3. Maximum portfolio percentage invested with any one issuer shall be 5%.
4. Maximum maturity at purchase shall be 270 days.

G. Bankers' Acceptances

1. Maximum Portfolio percentage for bankers' acceptances shall be 50% of the total Portfolio.
2. Maximum portfolio percentage invested with any one issuer shall be 5%.
3. Maximum maturity at purchase shall be 180 days.

H. Non-Negotiable Certificates of Deposit

1. Maximum Portfolio percentage for certificates of deposit shall be 20%.
2. No more than 10% of the Portfolio shall be invested in certificates of any one depository institution at one time.
3. Maximum maturity at purchase shall be 1 year.

I. Repurchase Agreements

1. The City's third party custodian shall hold the collateral for all repurchase agreements with a term longer than one business day. A clearly marked receipt that shows evidence of ownership must be supplied to the Treasurer-Clerk or designee and retained.
 - a. Securities authorized for collateral must have maturities under 5 years and with market value for the principal and accrued interest of 102% of the value and for the term of the repurchase agreement. Immaterial short-term deviations from 102% requirement are permissible only upon the approval of the Treasurer-Clerk or designee.
 - b. The overnight sweep arrangement shall adhere to the agreement between the City and the City's depository bank.

2. Maximum Portfolio percentage is 25% excluding one business day agreements and overnight sweep agreements.
3. No more than 5% of the Portfolio shall be invested with any one institution excluding one business day agreements and overnight sweep agreements.
4. Maximum maturity at purchase shall be 90 days.
5. Collateral shall be in the form of U.S. Government Securities, Agencies and Federal Instrumentalities as defined in Section 234.109, Section I.A.C

J. Registered Investment Companies (Money Market Mutual Funds)

1. Shares in open-end, no-load funds provided such funds are registered under the Federal Investment Company Act of 1940 and operate in accordance with 17 C.F.R. § 270.2a-7, which stipulates that money market funds must have an average weighted maturity of 90 days or less. In addition, the share value of the money market funds must equal to \$1.00.
2. Maximum Portfolio percentage for money market funds shall be 50% of the total Portfolio.
3. Maximum portfolio percentage invested with any one money market fund shall be 10%.
4. The money market funds shall be rated “AAAm” or “AAAm-G” or better by Standard & Poor’s, or the equivalent by another rating agency.

SPECIALIZED PORTFOLIOS

234.201 SCOPE AND PURPOSE

Specialized Portfolios are portfolios containing investments that, for various reasons, fall outside the parameters established to govern the Core Portfolio, Section 234.101 of this Policy. Reasons for these exceptions may be: the funds are governed under specific legal constraints (such as bond covenants, trust agreements) that define their investment parameters; or, the securities come to the City as gifts, in lieu of debts owed the City, or in conjunction with unique agreements the City might enter into.

Currently existing portfolios designated as Specialized Portfolios include:

- Debt Reserve Funds
- Equity Securities received in lieu of payment due City
- Nuclear Fuel Decommissioning Reserve Trust Fund

234.202 OBJECTIVES

Criteria will be established individually for each Specialized Portfolio and will be specific to that portfolio. These criteria will include, at a minimum, the objectives, a definition of authorized investments, and performance evaluation criteria.

In addition to the criteria established for each specific Specialized Portfolio, each portfolio must also comply with Sections 234.01 through 234.08 of this Policy.

SECURITIES LENDING PORTFOLIO

234.301 SCOPE AND PURPOSE

Assets invested under this Non-Pension Investment Policy shall be subject to inclusion in a Securities Lending program. Under such a program. Securities owned by the City may be loaned by the third-party securities lending provider to third parties who require the securities to support their trading activities. The borrower provides the City with cash collateral with a value equal to or greater than the loaned securities. The cash collateral will then be invested by or on behalf of the City. Investment of cash collateral shall be subject to the terms of this policy as outlined in Section 234.303.

234.302 OBJECTIVES

The investment objective of the securities lending portfolio is to seek incremental income consistent with liquidity and the preservation of capital through investment in high quality fixed income instruments.

234.303 AUTHORIZED INVESTMENTS

- I. **Securities Lending Investments**
 - A. **United States Government Securities**
 - B. **United States Government Agencies**
 - C. **Bankers' Acceptances**
 - D. **Non-Negotiable Certificates of Deposits**
 - E. **Domestic Time Deposits**
 - F. **Master Notes**

G. Repurchase Agreements

Repurchase transactions with counterparties approved by the Bank, involving the types of instruments in which the portfolio otherwise may invest and such additional types of instruments as the Bank may determine, in its discretion, to be prudent, regardless of the maturity of the instruments subject to the repurchase agreement, with such instruments custodied at custodial banks and marked to market daily at not less than 102% of the purchase price. In determining whether those types of instruments in which the portfolio could not otherwise invest are appropriate with respect to repurchase agreements, the Bank will use the following criteria: (1) At the time of entering into a transaction, the counterparty thereto, its parent (defined as any entity owning 50% or more of the outstanding voting securities, or all of the outstanding equity, of such counterparty), or guarantor, if any, shall have a short-term unsecured credit rating of at least A1 by S&P or P1 by Moody's; and (2) The maturity date of the repurchase transaction shall not exceed 5 business days.

H. Money Market Mutual funds which must first be approved in writing by the Treasurer-Clerk or his designee.

I. Bank and Deposit Notes

J. Corporate and Medium Term Notes

K. Asset-Backed Securities

L. Other Debt Obligations, which must first be approved in writing by the Treasurer-Clerk or his designee.

M. Country Exposure

The portfolio will invest solely in obligations denominated in U.S. dollars.

234.304 MATURITY AND LIQUIDITY LIMITATIONS

- I. Maximum Weighted-Average Portfolio Maturity: 60 days.
 - A. In calculating weighted average maturity, the maturity date of a floating rate security shall be deemed to be the next interest rate reset date.
 - B. Maturity limitations shall utilize the put or demand date in investments, which contain unconditional irrevocable demand or put features exercisable solely at the option of the investor.
 - C. In calculating compliance with the "remaining maturity" restrictions, the expected maturity date shall be utilized for all asset-backed securities. In the case of fixed rate asset-backed securities, the average life shall be utilized for the purpose of calculating compliance with the weighted average maturity restriction. In the case of floating rate asset-backed securities, the maturity date of a floating rate security shall be deemed to be the next interest rate reset date for the purpose of calculating compliance with the weighted average maturity restriction. In case of investments in shares of money market mutual funds, the fund's normal payment date upon a redemption will be utilized for purposes of the maturity restrictions.
- II. A minimum of 20% of the portfolio shall be maintained in investments with overnight maturities (next business day).
- III. 3-year maximum remaining maturity for all investments.
- IV. Maximum reset period for floating rate securities is 6 months.
- V. Floating rate investments with remaining maturities greater than 2 years shall be restricted to 50% of the portfolio.
- VI. A maximum of 10% of the portfolio may be invested in instruments, which are illiquid or not otherwise readily marketable (such investments may include securities which are

subject to legal or contractual restrictions on resale and repurchase agreements with maturities over 7 days, funding agreements and investments in structured trust vehicles).

- VII. Maturity limitations shall apply to the term of a repurchase agreement but not to the instruments that are the subject of the repurchase agreement.
- VIII. In the case of investments in shares of money market mutual funds, the fund's normal payment date upon a redemption will be utilized for purposes of the maturity restrictions.

234.305 CREDIT QUALITY

- I. For investments with an original maturity of one year or less: at the time of purchase, all investments must carry a program or instrument rating of, or if unrated be issued or guaranteed as to principal and interest by an issuer or guarantor whose existing comparable short-term debt obligations have received the highest applicable rating by at least one nationally recognized rating service (S&P A1; Moody's P1; Fitch F1).
- II. For investments with an original maturity greater than one year but less than or equal to two years: at the time of purchase, all investments must carry a program or instrument rating of, or if unrated be issued or guaranteed as to principal and interest by an issuer or guarantor whose existing comparable long-term debt obligations have a rating of either A1 or higher by Moody's, A or higher by S&P or A or higher by Fitch, except in the case of asset backed securities which must have a rating of AAA by S&P, Moody's or Fitch.
- III. For investments with an original maturity greater than two years: at the time of purchase, all investments must carry a program or instrument rating of, or if unrated be issued or guaranteed as to principal and interest by an issuer or guarantor whose existing comparable long-term debt obligations have a rating of either Aa3 or higher by Moody's, AA- or higher by S&P, or AA- or higher by Fitch, except in the case of asset backed securities which must have a rating of AAA by S&P, Moody's or Fitch.
- IV. Rating requirements shall not apply to securities and instruments issued or guaranteed by the U.S. Government, its agencies or instrumentalities.
- V. Rating requirements shall also not apply to brokers and dealers utilized for settlement and execution of transactions. In such cases, the Bank shall apply its own credit standards taking into account the settlement period, maturity and the collateral relating to the transaction.

234.306 ISSUER/COUNTERPARTY LIMITS

Limits for issuers/counterparties shall be as follows:

- No limit on securities and instruments issued or guaranteed by the U.S. Government, its agencies or instrumentalities.
- No limit on repurchase transactions involving securities or other instruments issued or guaranteed by the U.S. Government, its agencies or instrumentalities.
- For non-U.S. Government obligations.

Aggregate exposure to any single issuer or guarantor, or counterparty in connection with repurchase agreements shall not exceed the greater of \$5MM or 5% of the book value of the securities lending portfolio. Up to an additional 5% of the book value of the portfolio can be invested in the obligations of any single issuer, guarantor or repurchase agreement counterparty that will mature on the next business day. No more than the greater of 10% of the book value of the portfolio or \$5MM will be exposed, in the aggregate, to the obligations of any one issuer, guarantor or counterparty (including affiliates).

234.307 DERIVATIVE SECURITIES

Futures contracts, forward contracts, structured note, swap agreements, option contracts, swaptions, interest-only securities (IO's), principal-only securities (PO's), warrants and leveraged securities are not permitted investments. "Forward contracts" do not include purchases of securities or instruments entered into on when-issued, forward commitment, delayed delivery or delayed settlement basis.

ATTACHMENT "A"

BENCHMARK INDEXES

Section 234–104 of the Core Investment Portfolio, of which this attachment is part, provides for the establishment of relevant indexes to be utilized in the evaluation of the performance of this Portfolio. Two tests, with a description of each included below, have been created utilizing the following indexes:

- A. Quarterly Return for the State of Florida Local Government Surplus Funds Investment Pool, Annualized.
- B. 182 DAY U.S. Treasury Bill Quarterly Index, Annualized - as provided by Merrill Lynch Capital Markets Fixed Income Research Department.
- C. Short Term (1 - 2.99 years) High and Medium Quality Corporate Index, Annualized - as provided by Merrill Lynch Capital Markets Fixed Income Research Department.
- D. Short Term (1 - 2.99 years) Treasury Index, Annualized - as provided by Merrill Lynch Capital Markets Fixed Income Research Department.

TEST I - PERFORMANCE TEST

Test I has been constructed to analyze the performance of the Core Portfolio as measured against a passive market portfolio with a similar structure of maturities and types of instruments. The following formula has been developed using the above referenced indexes:

$$(E * A) + (F * B) + (G * C) + (H * D) = \text{Performance Index}$$

E = Percent of Portfolio in securities of less than 90 days maturity as of the end of quarter being evaluated.

F = Percent of Portfolio in securities with maturities, as of the end of the quarter, of more than 90 days but not more than 1 year.

G = Percent of Portfolio in corporate securities with maturities, as of the end of quarter being evaluated, of greater than 1 year.

H = 100% less percentages from E, F and G above.

TEST II - STRUCTURE TEST

A "normal" portfolio has been created with diversification representing the position of the Core Portfolio in a market/economic environment of stable interest rates with a normal yield curve and a neutral outlook relative to the direction of interest rates. Incorporating this portfolio diversification, expressed below as items I - L, and the previously described indexes (items A-D), an index results that tests the value added through repositioning the portfolio in anticipation of/response to movements in interest rates. Based on the above, the following formula has been developed:

$$(I * A) + (J * B) + (K * C) + (L * D) = \text{Test II Index}$$

I = 15%, assumed to be the percent of the portfolio in securities with maturities under 90 days.

J = 20%, assumed to be the percent of the portfolio in securities with maturities of greater than 90 days but not more than one year.

K = 15%, assumed to be the percent of the portfolio in corporate securities with maturities greater than one year.

L = 50%, assumed to be the percent of the portfolio in U.S. government securities with maturities of greater than one year.

INVESTMENT FIRM CERTIFICATION FORM

As an authorized representative of the undersigned firm, I hereby certify that said firm has in place reasonable procedures to monitor the activities of employees of this firm engaged in transactions between our firm and the City of Tallahassee. All sales personnel of this firm dealing with the City of Tallahassee have been informed and will be routinely informed of the City's investment objectives, policies, risk constraints and other pertinent factors, whenever we are so informed. This firm further pledges due diligence in informing the City of foreseeable risks associated with financial transactions connected with this firm.

(Firm Name)
Authorized Representative

(Signature)

(Title)

(Name - Printed)

(Date)

As account representative for the City of Tallahassee on behalf of the above referenced firm, I hereby certify that I have personally read and understand the investment policies of the City of Tallahassee, in such form as said policies were provided to me. I agree to use my best efforts to comply with the City's written policies and will not knowingly enter into any transaction with the City which appears to be in violation of the City's written policies.

Account Representative

(Signature)

(Title)

(Name - Printed)

(Date)

ATTACHMENT "C"

AUTHORIZED REPURCHASE AGREEMENT PROVIDERS

ANY FINANCIAL INSTITUTION OR FIRM WITH WHOM THE CITY OF TALLAHASSEE ENTERS INTO A REPURCHASE AGREEMENT MUST HAVE ON FILE WITH THE CITY A FULLY EXECUTED COPY OF THE CITY'S MASTER REPURCHASE AGREEMENT, INCLUDED IN THIS POLICY AS ATTACHMENT "C." THE FIRMS ELIGIBLE TO EXECUTE AN AGREEMENT WITH THE CITY OF TALLAHASSEE ARE:

1. All primary dealers.
2. The City's primary depository and the correspondent banks utilized by them to carry out the business of the City. Currently, the City's primary depository is Wachovia Bank, N.A.
3. The City's custody agent and the correspondent bank utilized by them to carry out the business of the City. At present the City's custody agent is State Street Bank & Trust. The correspondent bank is Northern Trust Company, Chicago.
4. Other banks with whom the City has a trust relationship for specific purposes such as compliance with bond covenants. Banks currently in this category are:
Wachovia Bank, N.A.

MASTER REPURCHASE AGREEMENT

**ANNEX I
SUPPLEMENTAL TERMS AND CONDITIONS**

1. GOVERNING LAW

The laws of the State of New York govern all transactions pursuant to this Agreement. The parties acknowledge that all Purchased Securities shall be lawful for the purpose of governmental investment by the buyer.

Because Buyer is a governmental entity and is prohibited by applicable law from making loans, the parties hereby (i) agree that all transactions conducted pursuant to this agreement must be interpreted as purchases and sales of securities and (ii) expressly reconfirm the provisions of Paragraph 6 of the Agreement.

2. PERMISSIBLE PURCHASED SECURITIES

Only the type of securities approved for purchase in accordance with the City of Tallahassee Non-Pension Investment Policy may be Purchased Securities pursuant to this Agreement. Such securities include:

- 1) U. S. Treasury bills, notes and bonds.
- 2) Coupon bonds and notes, medium-term notes, variable-rate notes, and discount notes of the: Federal Home Loan Mortgage Association, Federal Home Loan Bank System, Federal National Mortgage Association, Federal Farm Credit System, Federal Agricultural Mortgage Corporation; Student Loan Marketing Association.
- 3) GNMA obligations.

Unless the parties shall agree to the use of a third-party custodian responsible for margin maintenance, all Purchased Securities should be marketable instruments for which price information is regularly available in The Wall Street Journal, through the BLOOMBERG System, or in other media suitable to the Buyer.

3. DELIVERY

Notwithstanding the provisions of Paragraph 7 of the Agreement (Payment and Transfer), all transactions shall be accomplished through "delivery versus payment," unless the parties otherwise agree, in writing, prior to the transfer of funds.

4. SUBSTITUTION

In the event that Seller proposes to substitute securities for any Purchased Securities, Seller shall absorb all costs associated with such transfer. Buyer must be provided written "same day" notice of substitution, and any substitute securities must comply with all provisions of this Agreement, especially as they relate to Permissible Purchased Securities and margin requirements.

5. MARGIN RATIOS

Unless otherwise agreed upon by the parties to the transaction, for the purposes of calculating the margin amount, the following ratios shall be applied daily to the market value of Purchase Securities, depending on their maturity.

Maturity of Securities -----	U.S. Treasury Securities -----	U.S. Agency Securities -----	Mortgage-Backed or Others -----
Under 1 year	101%	101%	102%
1 - 5 years	102%	102%	103%
Over 5 years	103%	103%	105%

6. MARGIN MAINTENANCE

For term repurchase agreements, a custodian or the Seller shall maintain the required margin amount, or the required margin amount shall be increased as mutually agreed upon in writing, by both parties to the Agreement, to compensate for possible market price losses or gains. If the dealer does not mark daily, the margin ratios shall be increased.

ANNEX II

Names and Addresses for Communications Between Parties

FOR CITY OF TALLAHASSEE:

FOR THE CITY'S CUSTODIAN:

FOR THE BROKER/DEALER FIRM:

ATTACHMENT "E"

AUTHORIZED BANKERS' ACCEPTANCE PROVIDERS

EXCEPTIONS:

Financial Institutions meeting the debt rating criteria but with whose paper the City will not purchase:

At present, none

ADDITIONS:

Financial Institutions not meeting the debt rating criteria whose paper the City can purchase:

At present, none

ATTACHMENT “F”

AUTHORIZED INVESTMENT AGREEMENT PROVIDERS

THE LIST OF FIRMS ELIGIBLE TO ENTER INVESTMENT AGREEMENTS WITH THE CITY OF TALLAHASSEE INCLUDE:

All primary dealers.

All financial institutions with long term debt ratings of at least AA or short term debt ratings of at least AAA.

EXCEPTIONS TO THE ABOVE, ON A CASE-BY-CASE BASIS, ARE:

At present, none