

College Operating Procedures (COP)



Procedure Title: Investment Procedure
Procedure Number: 04-0706
Originating Department: Office of Financial Services

Specific Authority:
Board Policy 6Hx6: 1.02
Florida Statute 518.07, 215.45, 215.47, 218.415, 280, 1001.44, 1001.02, 1001.64
Florida Administrative Code 6A-14.0765

Procedure Actions: Adopted: 10/95; 6/09

Purpose Statement: The procedure establishes guidelines for the safety, liquidity, and rates of return of the College’s investments as authorized by applicable statutes, rules, and Florida SouthWestern State College District Board of Trustees policies.

Guidelines:

This procedure applies to cash and investments for operating funds of Florida SouthWestern State College only. It does not apply to the Gallery of Fine Arts Endowed funds or to the College's direct support organization(s).

Procedures:

I. DEFINITION OF TERMS

- A. Investments Managers for the purposes of this procedure are those organizations approved by the College or are authorized by Florida Statute to invest funds in accordance with this procedure but apply their own judgment concerning relative investment values. Investment managers are accorded full discretion, within the limits set forth in the College’s Investment Policy, to select individual investments and diversify their portfolios. The Florida State Board of Administration and the State of Florida – Division of Treasury’s Special Purpose Investment Account are authorized by Florida Statute to be an investment manager for any state agency or political sub-division.

1. SBA - LGIP is an acronym for the Florida State Board of Administration – Local Government Investment Pool.
- B. SPIA is an acronym for the State of Florida – Division of Treasury’s Special Purpose Investment Account.
- C. "Long-term Investable Balance" is defined as the cash balance available which is not anticipated to be needed for operational expenditures for a period of one year or more.
- D. “Obligations Balance" is defined as the College's cash balance needed to cover an average monthly cash outflow which is anticipated to be paid by the College's bank and an additional two pay periods.
- E. "Short-term Investable Balance" is defined as the cash balance in excess of the combined total of the "Obligations Balance" and the "Long-term Investable Balance".
- F. Gallery Endowment is a separately identified and restricted account of funds donated to the College for use by the Gallery of Fine Arts. Investment rules for these funds are specified in the donor records.
- G. QPD is an acronym for a Bank which is listed as a Qualified Public Depository by the State of Florida’s Chief Financial Officer.

II. DELEGATION OF AUTHORITY

- A. The Vice President of Financial Services is authorized to invest the College's operating funds at his/her discretion in investments consistent with this Procedure and and/or with an authorized investment manager(s).
- B. Employees of the College acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of any personal responsibility for an individual security’s credit risk or market price changes. While the standard of prudence to be used by the College’s staff is the Prudent Person Rule, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of “Prudent Expert”. The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the consultant shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

III. INVESTMENT OBJECTIVES

A. Safety of Principal

1. The foremost objective of this Investment Policy is the safety of the principal of those funds within the portfolios. Investment transactions shall seek to keep capital losses to a minimum, whether they are from securities defaults or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
2. From time to time, securities may be purchased at a premium or traded for other securities to improve yield, maturity or credit risk. For these transactions, a loss may be incurred for accounting purposes to achieve optimal investment return, provided any of the following occurs with respect to the replacement security:
 - a) The yield has been increased, or
 - b) The maturity has been reduced or lengthened, or
 - c) The quality of the investment has been improved

B. Maintenance of Liquidity

The second highest priority is liquidity of funds. The portfolios shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner.

C. Return on Investment

The third highest priority is income. Investment portfolios 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 least 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.

D. Summary

In summary, the Fund's primary objective is to place the highest priority on the safety of principal and liquidity of funds. The optimization of investment income shall be secondary to the requirements for safety and liquidity. A secondary objective is to maximize income (book yield) while providing minimal risk of market value volatility and adequate short-term liquidity to meet any cash flow demands. The next objective is that the portfolio seeks to outperform its benchmark on a total return basis.

IV. ANALYSIS OF CURRENT OPERATING REQUIREMENTS

A. FUNDS ON DEPOSIT WITH QUALIFIED PUBLIC DEPOSITORIES

When the College's Qualified Public Depository is managing the operating funds, the bank assumes responsibility for determining amounts needed to cover obligations and amounts available for investment if applicable.

B. FUNDS ON DEPOSIT WITH SBA, SPIA, & INVESTMENT MANAGER

When the College's funds are on deposit with the SBA or SPIA, the Office of Financial Services will be responsible for reviewing the College's daily cash requirements. This review will include determining the "Obligations Balance", "Short-term Investable Balance" and "Long-term Investable Balance" amounts. Investments should be made subject to the cash flow needs and such cash flows are subject to revisions as market conditions and the College'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 Vice President of Financial Services or the Investment Manager may sell the investment at the then-prevailing market price and place the proceeds into the proper account.

C. MATURITY AND LIQUIDITY

The Fund shall be constructed in such manner as to provide sufficient liquidity to pay obligations as they become payable. To the extent possible, investment maturities will be matched with known cash needs and anticipated cash-flow requirements. As such, the Vice President of Financial Services shall submit an annual summary noting monthly cash flow requirements to the Investment Committee and the Investment Manager. The summary shall be updated as necessary and submitted timely. Emergency reserves (to be available in case of an emergency) will be segregated and readily convertible to cash without material loss or penalty. Investment maturities shall not exceed three (3) years.

V. RISK AVERSION

A. DIVERSIFICATION

Investments held shall be diversified, in accordance with the guidelines set by the Investment Policy, to the extent practicable to control the risk of loss resulting from over concentration of assets in a specific duration, issuer, instrument, dealer or bank through which financial instruments are bought and sold. Diversification strategies within these guidelines shall be reviewed and revised periodically, as deemed necessary by the College's Investment Committee.

B. AUTHORIZED DEALERS

The Investment Manager is responsible for establishing and maintaining an approved list of authorized brokers/dealers and will make it available to the College for review.

C. THIRD PARTY CUSTODIAL AGREEMENTS

1. All securities purchased by Florida SouthWestern College or by its approved Investment Manager under this Policy shall be properly designated as an asset of the College and held in safe keeping by a third party custodial bank or other third party custodial institution. If a bank or trust company serves in the capacity of Investment Manager, said bank or trust company could also perform required custodial and reporting services.
2. No withdrawal of securities, in whole or in part, shall be made from safekeeping except by those designated within the Investment Management and Custodial Agreement between the Custodian and the College.
3. All securities, with the exception of certificates of deposits, shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by the College should be properly designated as an asset of the College. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Section 658.12, Florida Statutes, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida. Certificates of deposits maintained by book-entry at the issuing bank shall clearly identify the College as the owner.
4. The Vice President of Financial Services shall execute on behalf of the College, third party custodial agreement(s) with its bank(s) and depository institution(s). Such agreements may include letters of authority from the College, details as to the responsibilities of each party, method of notification of security purchases, sales, and delivery, procedures related to repurchase agreements and wire transfers, safekeeping and transaction costs, procedures in case of wire failure or other unforeseen mishaps and describing the liability of each party.
5. The custodian shall accept transaction instructions only from those persons who have been duly authorized by the College and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping, shall be permitted unless by such a duly authorized person.
6. The custodian shall provide the College with safekeeping receipts that provide detail information on the securities held by the custodian. Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must

be made on a “delivery vs. payment” basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

D. MASTER REPURCHASE AGREEMENTS

If a Repurchase Agreement is obtained as part of the investment strategy then the Investment Manger will maintain a master repurchase agreement and require all approved institutions and dealers transacting repurchase agreements to adhere to the requirements of the master repurchase agreement.

1. BID REQUIREMENTS

The Vice President of Financial Services will determine the approximate date to issue a request for proposal based on the contract duration. A minimum of three (3) qualified brokers/dealers must be contacted and asked to provide bids/offers on investments in question. Bids will be held in confidence until the bid deemed to best meet the investment objectives is determined and selected. Exceptions to this approach may be made when (1) prices for purchases/sales are compared to systems providing current market prices and deemed reasonable, (2) when the security to be purchased is unique to one institution or (3) the security has recently been issued and is trading at the same price by all financial institutions. The bid deemed best to meet the investment objectives specified in Section 218.415(2), F.S. shall be selected.

VI. SHORT-TERM INVESTMENTS

Short-term investments are limited to deposits with the SBA, SPIA or securities purchased in the name of the College as allowed by Florida Statute and held in custody by an authorized third-party institution.

A. BANK DEPOSITS

1. Idle cash funds which have been determined to be available for short-term investment (Short-term Investable Balance) will be invested with the College's QPD with whom the College has a valid banking services agreement or may be invested with other approved investment managers as defined in Section 1.1.
2. The College's bank account receives a return on its average daily balance based on the federal funds rate less five basis points. This maximizes the amount of funds available for investment. Any significant transfer of funds from the College's bank accounts that utilize the sweep process may affect the efficiency of the cash management process and will be a consideration in determining amounts to be transferred to other investment managers.

B. SBA / SPIA AND INVESTMENT MANAGER

1. Idle cash funds which have been determined to be available for short-term investment (Short-term Investable Balance), or a portion thereof, may be invested with the Investment Manager, SBA or SPIA as an alternative to investing with the College's Bank (including affiliated investment management companies) at the discretion of the Vice President of Financial Services.
2. The short-term investable balance transferred to the Investment Manager, SBA or SPIA, will be conservatively estimated to ensure that the College's bank account does not incur overdraft charges. Thus, there will be a minimal amount of Short-term Investable funds that will remain with the College's Bank subsequent to any transfer of Short-term Investable funds. The funds that remain in the commercial bank account will be invested in accordance with the banking services agreement.

VII. LONG-TERM INVESTMENTS

Long-term Investable Balances as defined in section 1.1.4 will be invested in accordance with the terms and conditions of agreements entered into with approved Investment Managers.

VIII. PORTFOLIO COMPOSITION

The Fund will be managed within the maximum limits placed on each investment category as described in Section 5 of the Investment Policy and identified in the table below.

Instrument	Maximum Investment of Funds
Florida Local Government Surplus Funds Trust Funds	100%
United States Government Securities	100%
United States Government Agencies	50%
Federal Instrumentalities	80%
Interest Bearing Time Deposit or Savings Account	35%
Money Market Mutual Funds	100%

Federally Deposit Insurance Corporation Guaranteed Corporate Securities	80%
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- A. A maximum of 5% of the Fund may be invested in securities of any single issuer. U.S. Government, Government Agency and GSE securities are not subject to any limitations.
- B. The maximum average duration of the portfolio shall be no greater than 120% of the target benchmark's average duration.
 - 1. The maturity of debt obligations with a call and/or put option(s) shall be considered the date on which it can be reasonably expected that the bond will be called, put or mature.
 - 2. The maturity of mortgage/asset-backed securities shall be considered the date corresponding to its average life. This date reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security's description.
 - 3. The effective duration of floating rate securities shall be considered the time until the next full reset of the coupon. The maximum duration of a floating rate security shall be three (3) years from the date of purchase.
 - 4. The maximum effective duration of an individual security shall be three (3) years from the date of purchase.
 - 5. In order to provide sufficient liquidity and stability of principal, no less than 10% of the Fund shall have an effective duration of one year or less.

IX. PERFORMANCE EVALUATION AND REPORTING

Unless otherwise indicated, the following are the responsibilities expected of the Investment Manager:

- A. Monthly reporting of holdings and transactions occurring in the Fund. This report is to include at least (1) all assets held by the Fund by class/type, book value, approximate market value, income earned, accrued income and (2) all transactions occurring in the Fund during the month as well as a combined monthly rate of return.
- B. Quarterly reporting of the Fund's performance. The Investment Manager will report the Fund's total rate of return both, by month, and year to date, which reflects the true earnings of the Fund and incorporates cash flows, changes in market value and income earned. Calculation of the Fund's total rate of return

will comply with the performance measurement standards as defined by the Association of Investment Management and Research (AIMR).

- C. The Investment Manager shall provide an investment report not less than quarterly including the listing of holdings in the portfolio at cost and market value to the District Director of Finance and the Investment Committee. This report will then be forwarded to the Board of Trustees. Such reports shall be available to the public. The Investment Committee shall meet and review the Investment Managers quarterly report as well as year to date report. The Committee will then report to the Board the investment status and any pertinent recommendations or suggest changes.
 - 1. Schedules in the quarterly report should include but not be limited to the following:
 - a) A listing of individual investments held at the end of the reporting period
 - b) Coupon, discount or earning rate
 - c) Final maturity date on all investments
 - d) Book value, and market value
 - e) Income earned
 - f) Monthly, quarterly and year to date rate of return
 - g) Any suggested changes to the investment mix or policy
- D. The investment objective is to achieve a rate of return consistent with the College's investment policy benchmarks. The Investment Committee shall review the policy annually and make recommendations to the College for modification thereto.