

# **COMPREHENSIVE INVESTMENT POLICY**

## **FOR THE TREASURY INVESTMENT POOL**



**Department of Financial Services  
Division of Treasury**

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DIRECTOR

# Table of Contents

<b>Section 1</b>	<b>Introduction</b>	
Article I	General Overview .....	5
Article II	Governing Authority .....	6
<b>Section 2</b>	<b>Operational Structure</b>	
Article III	Treasury Organization Structure.....	9
Article IV	Investment Work Group .....	9
Article V	Treasury Investment Council.....	10
<b>Section 3</b>	<b>Operational Policies</b>	
Article VI	Investment Goals .....	13
Article VII	Portfolio Allocation .....	13
Article VIII	Risk Management .....	14
Article IX	Investment Pool Rating.....	15
Article X	Ethics.....	15
Article XI	Standard of Care .....	16
Article XII	Internal Controls .....	16
Article XIII	Compliance .....	16
Article XIV	Custodial Risk.....	17
Article XV	Section 157(2)(v), Florida Statutes Investments.....	18
Article XVI	Broker-Dealer Requirements .....	18
Article XVII	Securities Lending .....	19
Article XVIII	Placement Agents.....	20
Article XIX	External Investment Manager Selection .....	21
Article XX	External Investment Manager Monitoring.....	22
Article XXI	Derivatives Policy.....	24
Article XXII	Security Pricing.....	24
Article XXIII	Special Purpose Investment Account.....	25
Article XXIV	Prohibited Securities and the Protecting Florida’s Investments Act.....	25

<b>Section 4</b>	<b>Investment Policies</b>	
Article XXV	Investment Policy for Liquidity Portfolio.....	27
Article XXVI	Investment Policy for Ultra-Short Duration Portfolio .....	30
Article XXVII	Investment Policy for Short Duration Portfolio.....	34
Article XXVIII	Investment Policy for Intermediate Duration Portfolio .....	37
Article XXIX	Investment Policy for Long Duration Portfolio .....	42
Article XXX	Investment Policy for Securities Lending.....	47
Article XXXI	Investment Policy for Short Term Investment Fund.....	50
Article XXXII	Investment Policy for Asset-Backed Securities Portfolio.....	53
Article XXXIII	Investment Policy for Time Deposits Program.....	56
Article XXXIV	Investment Policy for the Passive Account .....	57
<b>Section 5</b>	<b>Approval</b>	
Article XXXV	Director of the Division of Treasury Approval.....	59
<b>Section 6</b>	<b>Appendices</b>	
Appendix A	Section 17.57, Florida Statutes .....	61
Appendix B	Section 17.575, Florida Statutes .....	65
Appendix C	Section 17.61, Florida Statutes .....	66
Appendix D	DFS Administrative Policies and Procedures Number 5-05 .....	69
Appendix E	DFS Administrative Policies and Procedures Number 1-02 .....	75

# **Section 1**

## **INTRODUCTION**

# **Article I**

## **General Overview**

The Chief Financial Officer (“CFO”) has a statutory duty to fully invest or deposit State funds in order that the State may realize maximum earnings and benefits. The Florida Division of Treasury (“Treasury”) manages monies belonging to State Agencies and other entities created by Florida State Constitution or Law (Special Purpose Investment Accounts (“SPIA”)). The Treasury’s principal investment management objectives, in descending order of priority, are as follows:

- Provide Liquidity
- Preserve Principal
- Provide Incremental Income

This Comprehensive Investment Policy (“CIP”) sets forth the general principles that govern the investments and investment personnel of the Treasury.

The investments are allocated among nine Treasury investment portfolios/programs:

1. Liquidity Portfolio
2. Ultra-Short Duration Portfolio
3. Short Duration Portfolio
4. Intermediate Duration Portfolio
5. Long Duration Portfolio
6. Short-Term Investment Fund
7. Securities Lending Program
8. Time Deposits Program
9. Passive Account

Collectively, these Treasury investment portfolios/programs are referred to as the “Investment Pool”.

The Treasury will present updates to the CIP to the Treasury Investment Council (“Council”) for review annually or more frequently if needed. The Director of the Division of Treasury has final approval authority for the CIP.

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## **Article II** **Governing Authority**

### **Investment Authority**

Section 17.58(1), Florida Statutes, requires that all monies collected by State Agencies, boards, bureaus, commissions, institutions, and departments shall, except as otherwise provided by law, be deposited in the Treasury.

Section, 17.61(1), Florida Statutes, provides that the CFO shall invest all general revenue, trust funds and agency funds of each State Agency and the judicial branch. Funds for investment and reinvestment shall be considered investment funds and not funds on deposit, and such funds shall be exempt from the provision of Chapter 280, Florida Statutes.

Section 17.57(1), Florida Statutes, provides that it is the duty of the CFO, consistent with the cash requirements of the state, to keep such money fully invested or deposited as provided within this Statute in order that the State may realize maximum earnings and benefits. The CFO shall make funds available to meet the disbursement needs of the State.

### **Allowable Investments**

Section 17.57(2), Florida Statutes, establishes the allowable investments for funds within the Treasury.

### **Securities Lending Program**

Section 17.61(1), Florida Statutes, provides that securities or investments purchased or held under the provisions of section 17.57(2) may be loaned to security dealers and banks, provided that the loan is collateralized by cash or US government securities having a market value of at least 100 percent of the market value of the securities loaned.

### **Advisors**

Section 17.57(2), Florida Statutes, provides that the CFO may hire registered investment advisors and other consultants to assist in investment management.

### **Special Purpose Investment Account (SPIA)**

Section 17.61(1), Florida Statutes, provides that the CFO may invest, upon request, funds of any board, association, or entity created by the State Constitution or by Law by the procedure and in the authorized securities prescribed in Section 17.57(2), Florida Statutes.

### **Investment Fees**

Section 17.61(4)(b), Florida Statutes, provides that the CFO shall make an annual assessment of 0.12 percent against the average daily balance of SPIA and Trust Funds and 0.20 percent against the average daily balance of those funds requiring investment in a separate account.

## **Treasury Investment Council**

Section 17.575, Florida Statutes, creates a Council consisting of at least five members, at least three of whom are professionals from the private sector, who shall review the investments required by Section 17.57, Florida Statutes; meet with staff of the Division of Treasury at least biannually; and provide recommendations to the Division of Treasury and the Chief Financial Officer regarding investment policy, strategy, and procedures. s.

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## **Section 2**

# **OPERATIONAL STRUCTURE**



## **Article III**

### **Treasury Organization Structure**

The CFO has a statutory duty to fully invest or deposit State funds in order that the State may realize maximum earnings and benefits. This responsibility is performed within Treasury's Investment Section.

Investment and operational decisions are made by the Investment Work Group. The Investment Work Group consists of the Director of the Division of Treasury, the Chief of the Bureau of Funds Management, the Chief Investment Officer and the Financial Administrator for External Investments. The Investment Work Group reports at least twice a year to the Council.

## **Article IV**

### **Investment Work Group**

Section 17.57(1), Florida Statutes, provides that it is the duty of the CFO, consistent with the cash requirements of the State, to keep the State money fully invested in order that the State may realize maximum earnings and benefits. Responsibility for the operation of the Investment Pool has been delegated to the Investment Work Group, who shall act in accordance with established written procedures and internal controls for the operation of the Investment Pool consistent with this CIP.

The Investment Work Group should meet regularly to discuss and act upon daily operational and investment items. Examples of items the Investment Work Group discusses/reviews:

- Compliance issues
- Investment strategies
- External manager activity and/or concerns
- Portfolio performance and characteristics
- Treasury operational issues
- Investment items as defined in Article XV
- Investment policies
- Security lending activity
- Monthly economic data
- Headline risk items

Matters related to the roles of the Council (see Article V) are developed by the Investment Work Group and presented to the Council for comment.

In relation to matters of an urgent nature, the Investment Work Group may take immediate action. Such decisions will be presented to the Council at the next regularly scheduled meeting.

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## **Article V**

### **Treasury Investment Council**

#### **Purpose**

The Treasury Investment Council (Council) is established pursuant to Section 17.575, Florida Statutes. The Council shall assist the Investment Work Group and the CFO by providing guidance on high level investment related matters, including policy and strategy matters and review of performance relative to objectives.

#### **Membership**

The Council shall consist of at least five members, at least three of whom are professionals from the private sector, who must possess special knowledge, experience, and familiarity in finance, investments, or accounting. The members of the Council shall be appointed by and serve at the pleasure of the CFO. Members shall serve terms of four years. Members are permitted to serve more than one term. The Council shall annually elect a chair and vice chair from among its membership. Members of the Council shall serve without compensation but shall be entitled to receive reimbursement for per diem and travel expenses as provided in Section 112.061, Florida Statutes.

#### **Responsibilities**

- Understand the Treasury's purpose and investment goals.
- Review and provide guidance to the Investment Work Group on the investment policies, general investment strategies and performance of the Treasury Investment Pool.

#### **Roles**

- Provide policy guidance to the Investment Work Group.
- Review and recommend for approval policies developed and/or updated by the Investment Work Group governing the Treasury's investment portfolios.
- Review changes to investment benchmarks or other measurement devices employed by the Treasury to monitor the performance of its investment portfolios.
- Evaluate investment performance of the investment portfolios based on a comparison of actual returns with established return objectives.
- Review investment strategy changes proposed by the Investment Work Group.
- Perform such other responsibilities regarding the Treasury's investment activities, policies or other matters as may be assigned to the Council.

#### **Attendance at Council Meetings**

The Investment Work Group shall set the schedule of meetings. The Council should meet at least semi-annually or more frequently as needed. Notices of meetings shall be posted in compliance with appropriate laws. In recognition of the importance of the work of the Council, regular attendance at the Council meetings is expected from all members. Attendance may be in person or by means of a conference call or other communications equipment by means of which all persons participating in the meeting can hear each other. A majority of the members of the Council present at a meeting shall constitute a quorum for the transaction of business. The action

of the Council shall be determined by the vote or other affirmative expression by the majority of its members in attendance where a quorum is present.

### **Agendas and Other Meeting Materials**

An agenda shall be prepared for each regular and special meeting of the Council. The agenda shall set forth those items upon which the Council anticipates taking action or discussing. Each agenda item shall have attached backup material necessary for discussion or action by the Council. A copy of the agenda and backup material shall be furnished to each Council member prior to commencement of the meeting. Minutes outlining decisions shall be maintained and held by the Treasury. The Treasury shall record all acts and determinations of the Council, and all such records shall be preserved in the custody of the Treasury. Such record and documents shall be open at all times for inspection.

### **Appearance before the Council**

All persons who are scheduled to make appearances before the Council shall be scheduled through the Treasury Division Director, who may establish the time limits for such appearances. Appearances before the Council may be in person or through a representative.

### **Ethics**

- Council members must always exercise care and caution to place the interests of the Treasury before their own.
- No Council member may influence the investment decision making process of the Treasury for personal gain or private advantage or in a manner detrimental to the interests of the Treasury.
- Council members must avoid actions or activities that bring into question that person's independence of judgment with respect to the execution of professional responsibilities.
- Council members shall not own, be directly affiliated with or compensated by a current vendor or a vendor seeking to do business with the Treasury.

### **Council members must follow appropriate State of Florida laws**

Council members are required to follow all Florida laws related to Council member conduct.

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**Section 3**  
**OPERATIONAL POLICIES**

## **Article VI**

### **Investment Goals**

The Treasury's principal investment goals, in descending order of priority, are as follows:

#### **Liquidity**

The Treasury must be in a position to meet all cash outflow needs of the State and SPIA. While it is essential to invest all available funds, it is equally essential for the Treasury to maintain sufficient liquidity to provide for expected disbursement demands plus a level of other unforeseen outflows.

#### **Preservation of Principal**

The investment of funds by the Treasury must be performed with the emphasis on preservation of principal over return on investment. All investments are subject to risk. Article VIII highlights some of these risks and discusses Treasury's risk management approach. Investment decisions should be made with a focus on minimizing risk in line with each portfolio's objective. A risk/return analysis should be conducted at the portfolio and Investment Pool level as needed based on the current economic conditions and the State's needs.

#### **Incremental Income**

The Treasury will invest excess funds to provide incremental income while considering liquidity needs and monitoring risks as provided above. Some methods employed by the Treasury to provide incremental income are:

- Appropriate allocation among the Investment Portfolios
- Active Investment Management
- Securities Lending Program

The Investment Pool is managed so as to avoid any instance of negative monthly income.

## **Article VII**

### **Portfolio Allocation**

Portfolio allocation refers to the strategic deployment of assets among the Treasury's investment portfolios and programs (excluding Securities Lending Program). The portfolio allocation decision reflects the investment goals discussed in the previous Article and is expected to be the single greatest determinant of risk and income generation ability of the Investment Pool.

The portfolio allocation is implemented using permissible ranges for each portfolio and program. The ranges are established based on three principles: 1) to ensure that Investment Pool is able to provide ample liquidity to both State and non-State Pool participants on a daily basis in normal markets and during periods of intense market stress, 2) to ensure a minimum degree of diversification across the yield curve and fixed income sectors and 3) to ensure that earnings are prudently maximized.

The current ranges are as follows:

	<u>Range</u>
Liquidity plus Ultra-Sort Duration Portfolios	30%-70%
Short Duration Portfolio	10%-50%
Intermediate Duration Portfolio	10%-50%
Long Duration Portfolio	10%-50%
Time Deposits Program	0%-6% (with a goal of 5%)

These ranges allow for a high degree of flexibility in the allocation of the Investment Pool and will remain in effect under normal conditions. However, a very substantial change in the financial conditions of the State and its liquidity needs or a change in capital market conditions might lead to a reassessment of the permissible ranges.

The Work Group will monitor the Investment Pool allocation on a monthly basis to verify compliance with the established portfolio ranges. At least once a year, the Work Group, in consultation with the Investment Consultant, will also conduct a more in-depth analysis of current and expected financial market conditions, state economic conditions as well as budget estimates to help determine the appropriate target within its respective range for each portfolio.

## **Article VIII**

### **Risk Management**

The primary approach to managing risk is to monitor principal quantitative and qualitative risk factors relative to benchmarks while continuing to pursue active returns. The below risk measures will be used to evaluate the risk in the Investment Pool in relation to the current/forecasted economic and market outlook. The following subsections identify the key risk areas with risk management parameters.

#### **Active Risk**

Active risk, as measured using tracking error, is the risk associated with the differences in returns between the policy benchmark and the actual results of the portfolio. Tracking error is measured as the standard deviation of the difference between the monthly returns of an active manager's actual portfolio and their respective benchmark(s). The active risk of the Investment Pool will be measured using the most recent trailing five years (60 months). If the upper bound of a targeted active risk range is pierced, further evaluation of the risk in the program and/or Investment Pool will be initiated. The budgeted amount of active risk for the entire Investment Pool will be up to 100 basis points with each portfolio range as follows:

<b>Portfolios</b>	<b>Benchmark</b>	<b>Target Range</b>
Liquidity Portfolio	Bank of America Merrill Lynch 0-3 month T-Bill	0 – 35 bps
Ultra-Short Duration Portfolio	Bank of America Merrill Lynch 0-2 year U.S Treasuries	0 – 50 bps
Short Duration Portfolio	Bank of America Merrill Lynch 1-3 year Government/Corporate, A or better	0 – 75 bps
Intermediate Duration Portfolio	Bloomberg Barclays U.S. Intermediate Aggregate Index	0 – 150 bps
Long Duration Portfolio	Barclays Capital U.S. Aggregate Bond Index	0 – 200 bps

## **Interest Rate Risk**

Interest rate risk will be managed by limiting the maximum maturity of investments or effective duration of the portfolio which is detailed in the Portfolios' Investment Policies.

## **Credit Risk**

Issuer concentration is limited by the Portfolios' Investment Policies.

## **Sector Risk**

Each portfolio is expected to be broadly diversified and may have deviations from the benchmark sector weightings. Sector exposures will be monitored by the Investment Work Group to identify the scale of under- and over- allocations and for performance attribution analysis. The active risk constraints in conjunction with the use of broad-based asset class benchmarks will have the effect of limiting sector concentration.

## **Manager Risk**

The allocation to any single External Manager is limited to 20% of the individual External Manager's fixed income assets under management.

The maximum assets for any one External Manager shall not exceed 10% of the total Investment Pool.

## **Derivatives Risk**

Derivatives usage and limitations as well as risk management requirements are detailed in the Long Duration Portfolio Policy as well as Article XXI.

## **Article IX** **Investment Pool Rating**

The Investment Pool must be rated by at least one nationally recognized rating service. The Investment Pool should be managed in a manner that maintains a rating of A+/A1 or better.

## **Article X** **Ethics**

All Treasury investment employees and members of the Investment Work Group will be subject to the following requirements.

- Treasury investment employees must abide by Administrative Policy and Procedure Number 5-05, Department of Financial Service's Code of Ethics.
- The interests of the funds managed by the Treasury should be of paramount importance to each Treasury investment employee. Treasury investment employees must always exercise care and caution to place the interests of the Treasury before their own.

- No Treasury investment employee may influence the investment decision making process of the Treasury for personal gain or private advantage or in a manner detrimental to the interests of the Treasury.
- Treasury investment employees must avoid actions or activities that bring into question that person's independence of judgment with respect to the execution of professional responsibilities.
- All personal investment transactions must be accomplished in such a manner as to avoid even the mere appearance of impropriety or a conflict of interest on the part of Treasury investment employees. This includes, but is not limited to, refraining from undertaking personal investment transactions with the same individuals with whom business is conducted on behalf of the Treasury.

## **Article XI** **Standard of Care**

Investment decisions 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. In addition to considering the probable safety of capital and income of an investment, economic benefits issuers can provide the State may also be considered in investment decisions.

## **Article XII** **Internal Controls**

The Investment Work Group shall follow the requirements of Administrative Policy and Procedure Number 1-02. Internal controls will be established to maintain an adequate internal control structure designed to reasonably protect the Investment Pool's assets from loss, theft or misuse.

## **Article XIII** **Compliance**

General investment compliance for the Investment Pool will be conducted by an independent Compliance Officer who reports directly to the Treasury Director. Compliance procedures will be maintained by the Compliance Officer.

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## **Article XIV**

### **Custodial Risk**

The Treasury shall utilize a third-party custodial agent for book entry transactions, all of which shall be held in an account in the name of the Florida Department of Financial Services. The custodial agent shall be an organization authorized to do work in the United States who has an account with the Federal Reserve. The custodial agent will also provide their most recent report on internal controls upon request.

If securities are not held by the custodial agent, the security must be held in an account in the name of the Florida Department of Financial Services.

Time Deposits shall be held in the CFO's name and covered under FDIC insurance as well as Chapter 280, Florida Statutes, Public Deposit Program.

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## **Article XV**

### **Section 17.57(2)(v), Florida Statutes Investments**

Section 17.57(2)(v), Florida Statutes, allows 3% of funds under the control of the CFO to be invested in securities not specifically provided for within Section 17.57(2), Florida Statutes. The Treasury considers these securities as “Basket Clause” securities.

Prior approval must be obtained from the Investment Work Group to purchase any security not specifically permitted in Section 17.57(2), Florida Statutes. Any such security that is purchased without prior approval must be sold immediately. Any securities that become basket clause items must be communicated to the Investment Work Group within 30 calendar days.

Securities that are in compliance with the requirements of Section 17.57(2), Florida Statutes, at the time of purchase but fall out of compliance due to an event such as a rating downgrade will be placed in the Basket Clause upon the date the security is no longer in compliance. These securities can stay in the Basket Clause for up to 90 days with no approval requirements. If a Portfolio Manager believes that it is in the best interest of the Investment Pool to hold a Basket Clause security for greater than 90 days, that Portfolio Manager can present a recommendation to hold the security along with justification in writing to the Investment Work Group. The Investment Work Group will review each request and vote to approve or deny the request. If the Investment Work Group approves the request, the Portfolio Manager will be allowed to hold the security longer than the 90-day limit. Approved securities will be reviewed in March and September of each year. As part of the review, the Portfolio Manager will submit updated recommendations which will go through the Investment Work Group review and approval process.

A report of outstanding Basket Clause securities will be presented to the Council at each meeting.

If determined in the best interest of the Investment Pool by the Investment Work Group and/or the CFO, any security in the Basket Clause can be required to be sold immediately.

## **Article XVI**

### **Broker-Dealer Requirements**

The Internal Investment section will transact all trades through an approved broker-dealer except for trading mutual funds, Israel Bonds and some commercial paper. The broker-dealer must be designated as a primary dealer by the Federal Reserve Bank of New York or be one of the top 20 underwriters of investment grade U.S. corporate bonds (by dollar volume) at least once in the two most recent calendar years. Broker-dealers must be incorporated in the United States and be a Depository Trust Company (DTC) member. A review process will be completed annually on existing and potential broker-dealers.

## **Article XVII**

### **Securities Lending**

Treasury's policies and guidelines governing securities lending shall be implemented through the securities lending providers. Each provider will be governed by a contract combined with the custody contract or a separate contract, distinct from a custody relationship, detailing the type of securities lending relationship and program.

The following are the types of acceptable collateral:

- Cash
- U.S. Treasuries
- Agency Debentures
  - FNMA (Federal National Mortgage Corporation)
  - FHLMC (Federal Home Loan Mortgage Corporation)
  - FHLB (Federal Home Loan Banks)
  - FFCB (Federal Farm Credit Banks)
- Agency (GNMA, FNMA and FHLMC) Mortgage Backed Pass Throughs Certificates
  - Pass Throughs - Fixed Rate
  - Pass Throughs - Adjustable Rate

(MBS strips, REMICs/CMOs not permitted)

The provider must exercise investment discretion within the overall objectives of: preserving principal; providing a liquidity level consistent with market conditions along with the lending and trading activities of the Funds' assets; and maintaining full compliance with stated objectives and statutory provisions. The provider shall exercise prudence and expertise in managing the cash collateral reinvestment function and comply with Article XXX, the Investment Policy for Securities Lending.

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## **Article XVIII**

### **Placement Agents**

The Treasury does not deal directly with Placement Agents in the process of selecting and hiring External Managers and broker-dealers. A Placement Agent is defined as any person or entity hired, engaged or retained by, or serving for the benefit of or acting on behalf of an External Manager, broker-dealer or on behalf of another Placement Agent, who acts or has acted for compensation, directly or indirectly, as a finder, solicitor, marketer, broker, lobbyist, or other intermediary to raise money or investment from, or to obtain access to the Florida Treasury, whether compensated, directly or indirectly, on a flat fee, contingent fee or any other basis.

Treasury identifies and reviews External Manager candidates independently and pays fees directly to the investment manager. Treasury will not directly pay management fees of any kind to any Placement Agent.

All External Managers must provide the following information to the Treasury prior to conducting business with the Treasury and annually thereafter:

- A statement whether the External Manager, or any of its principals, employees, agents or affiliates has compensated or agreed to compensate, directly or indirectly, any person or entity to act as a Placement Agent in connection with any investment by the Treasury, and if so, the name of the Placement Agent.
- A statement disclosing whether any Placement Agent has compensated or agreed to compensate, directly or indirectly, any third party (including a sub-contractor) to solicit an investment by the Treasury or who is paid based upon an investment commitment by the Treasury (Third Party Placement Agent).
- A description of any and all compensation of any kind provided or agreed to be provided to a Placement Agent, including the nature, timing and value thereof. Compensation to Placement Agents shall include compensation to Third Party Placement Agents who are retained in order to solicit an investment from the Treasury or who are paid based upon investment commitments secured by such third parties.
- A description of the services to be performed by the Placement Agent, including whether the nature of the services are either ministerial or influential, and a statement as to whether the Placement Agent is utilized by the External Manager with all prospective clients or only with a subset of the External Manager's prospective clients.
- A statement confirming that the Placement Agent and any Third-Party Placement Agent, if applicable, is registered with the SEC or the Financial Industry Regulatory Association or a similar regulatory body (which must be disclosed) in a country other than the United States.

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## **Article XIX**

### **External Investment Manager Selection**

Treasury will prudently select external fixed income investment managers (“Managers”) based on their respective expertise relative to the investment mandate the Treasury seeks to fulfill or the investment service the Treasury seeks to receive.

New Managers are added for a variety of reasons including, but not limited to:

- Need for increased investment capacity
- Enhanced diversification of Managers
- Addition of new strategies or styles
- Termination of existing external Managers

Managers interested in providing their services to the Treasury are required to complete the Investment Manager Questionnaire (“Questionnaire”) located on the Treasury’s web site at <http://www.fltreasury.org>.

Managers must satisfy the following criteria to be considered in the selection process:

- Must be a bank, insurance company, or investment adviser as defined by the Investment Advisers Act of 1940.
- Must be registered and in good standing with the Securities and Exchange Commission.
- Must have a minimum of five years with the desired investment style, demonstrate continuity of key personnel, have institutional fund experience, and accept Treasury’s standard fee schedule or a lower fee schedule.
- Must have a clearly defined investment philosophy and decision-making process.
- Must demonstrate generally favorable consistent historical performance in relation to the External Investment Manager Program benchmark, calculated per the CFA Institute Global Investment Performance Standards (GIPS).
- Must have Fixed Income Assets Under Management greater than 5 times the proposed allocation.

#### **Selection Based on Specific Need**

The Investment Work Group will consider Managers that are included in databases maintained by its Custodial Bank, Investment Consultant and/or other industry recognized databases that have an expertise in the area of need. The Investment Work Group will perform the steps necessary to ensure that subjectivity and bias are minimized in the Manager selection process and that appropriate due diligence is conducted on selected Managers. Each selected Manager will be presented to the Council for comment and to the CFO for approval. Once approved, the selected Manager will enter into a Treasury’s standard Investment Manager Agreement.

#### **Annual Review**

At least annually, the Investment Work Group will review the completed Questionnaires and any other available data on potential Managers to determine if adding new Managers to the External Investment Manager Program would be appropriate.

## **Article XX**

### **External Investment Manager Monitoring**

#### **Manager Reviews**

Treasury continuously monitors each Manager's performance relative to the applicable benchmark and Program peers. Monthly reports detail net performance, risk-adjusted returns, asset allocations and Manger Rankings as well as various other risk metrics. Regular monthly calls with each Manager provide additional insight into Manager's economic outlook, investment views, recent portfolio ideas and trades as well as discussion of any pertinent topics that influence the firm and its investment decisions.

Formal Manager Reviews with Treasury staff will be conducted at least annually as a means of discussing each Managers' performance, organization, staff and investment strategy. Manager reviews will normally be conducted during January and / or February, covering the previous 6- and 12-month periods. The reviews may be held via conference call, at Treasury's office, or at the Manager's location. Treasury may decide that Managers on the Watch List or those substantially underperforming their peers, but not yet on Watch, will be subject to a second Formal Review during July / August.

Each Manager Review consists of many discussion topics, including but not limited to the following:

- An overview of the organization, including any material changes or updates to its structure, ownership, investment process or philosophy, assets under management and/or the stability of the firm's business.
- Any loss of key personnel and/or clients.
- A review of the portfolio and its risk metrics.
- Operational factors including compliance and controls.
- A market review including the firm's short-term economic forecast.
- Comparison of the Manager's Program and Composite performance within the specific Treasury mandate relative to its Program peers.

At least annually, Treasury will review Managers within the program by comparison of those Managers' Composite returns for that particular mandate as represented in a larger nationally recognized fixed income manager universe.

#### **Manager Risk-Adjusted Ranking System / Reallocation of Assets**

Treasury will utilize a Manager risk-adjusted ranking system that, at a minimum, will consider each Manager's net performance, information ratio, Sharpe ratio and alpha. The ranking system will be utilized for allocation of new funds into a mandate, withdrawal of funds from a mandate and/or re-allocation of assets among Managers within mandates. These decisions can be made independent of the Watch List process described below.

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## **Watch List**

Treasury's goal is to determine, as best as possible, the likelihood of future success of each Manager hired. Decisions regarding retention or termination of Investment Managers will be based on qualitative factors which affect the character or stability of the firm, quantitative factors relating to performance and risk-adjusted rankings or on a combination of both.

Treasury continuously monitors each Manager and utilizes a Watch List to facilitate retention/termination decisions. The purpose of the Watch List is to define the conditions that will cause Treasury to formally evaluate and scrutinize Managers for continued retention in the program. Placing a Manager on the Watch List is an intermediate step toward either resolving the problem or terminating the Manager.

When a Manager is placed on the Watch List, Treasury will conduct a thorough evaluation of the firm to determine the cause of the underperformance or other quantitative factor. Treasury may engage its external Investment Consultant to assist in this exercise. The review will focus on whether the Manager currently embodies characteristics sufficient to provide reasonable assurance the Treasury's investment goals will be achieved in the future. In addition, an immediate reduction of assets or other sanctions may be imposed on the Manager upon being added to the Watch List.

During the Watch List period, the Manager must work toward resolving the item/issue that placed them on the Watch List. Twelve months will generally be the time frame over which improvement or resolution of the issues/problems will be expected to occur. However, significant continued deterioration of performance or failure to make adequate progress in qualitative issues may result in a decision to take action prior to the conclusion of the watch period.

At the end of the Watch List period, Treasury will determine whether to remove the Manager from the Watch List, extend the Watch List period, terminate the Manager or take other appropriate action.

Outside of this Watch List process, Managers serve at the pleasure of the Treasury and may be terminated or defunded at the Treasury's discretion and without notice, irrespective of any other provisions of this policy.

The quantitative and qualitative conditions for placing a Manager on the Watch List are described below:

### **Quantitative Watch List Factors**

Quantitative factors are used as a dashboard and not an absolute determinant. Treasury will use multiple tools when making decisions on a Manager. Quantitative factors that will be monitored and may result in placing a Manager on the Watch List or terminating a Manager include any of the following:

- Trailing 5-year annualized net performance below the established benchmark for six of the prior twelve months.
- Trailing 3-year annualized net performance below the established benchmark for nine out of the prior twelve months.
- The Manager's Risk-Adjusted Ranking for the one and three-year periods falls in the bottom quartile, or the bottom two (2) Managers, whichever is less, of the applicable Treasury portfolio roster of Managers for nine out of the prior twelve months.

- Trailing 1-year net performance below the established benchmark and ranking in the bottom quartile or the bottom two (2) Managers, whichever is less, of mandate managers for nine out of the prior twelve months.

Seldom will a Manager be placed on the Watch List if they breach only one factor. In the case of Managers with a longer term history with Treasury, consideration may be given to since-inception data.

### **Qualitative Watch List Factors**

Qualitative factors that may result in placing a Manager on the Watch List or terminating a Manager include any of the following:

- Any changes in the Manager's investment process or strategy
- A change at the Manager resulting in deterioration in the efficacy of the investment process and any ongoing performance problems
- Any changes in the Manager's ownership or business plan
- Advent of material litigation
- Turnover/loss of key personnel related to Treasury's portfolio
- Any material change in clients and/or assets under management in the product that is managed for Treasury
- Deterioration in client service
- A change in the Manager's capital structure

An update of the status of all Managers on the Watch List and any proposed actions will be presented at each Investment Council meeting for discussion and comment. However, in situations where immediate action is required the Investment Work Group will proceed with the action and update the Investment Council at the next meeting.

## **Article XXI** **Derivatives Policy**

The Investment Pool is allowed to invest in the following types of derivatives: Interest Rate Futures and Mortgage TBAs. If used appropriately, derivative contracts can be an important component of a portfolio by reducing risk, providing a cheaper, more efficient manner in which to obtain market exposure or to expand the opportunity set in which portfolio managers seek to add value.

Derivatives are further restricted in the Long Duration Portfolio's Investment Policy.

## **Article XXII** **Security Pricing**

Investment securities pricing is provided by the custodian through the Custodian Contract.



## **Article XXIII**

### **Special Purpose Investment Account**

Special Purpose Investment Accounts (SPIA) allow specific entities to participate in the Treasury Investment Pool. The specific entities are State agencies (for funds outside the accounting system), Component Units of the State and Component Units of Universities and Colleges. State Agencies participate without any limitations. Component Units of the State and Component Units of Universities and Colleges are subject to a minimum balance requirement. The minimum balance requirement is 60% of their average investment balance for the previous three months. Six months' notice is required to liquidate below this minimum balance. Accounts involving bond proceeds are exempt from the minimum balance requirement. Treasury may also limit the amount of funds that may be invested in SPIA. Currently, the Non-State Agency SPIA participation (excluding bond accounts) is limited to 30% of the overall Investment Pool balance.

## **Article XXIV**

### **Prohibited Securities and the Protecting Florida's Investment Act**

The Protecting Florida's Investments Act (PFIA) requires the Florida State Board of Administration (SBA) to assemble and publish a list of "Scrutinized Companies" that have prohibited business operations in Sudan or Iran. The SBA and its investment managers are prohibited from acquiring those companies' securities. While not required by PFIA, Treasury will also refrain from acquiring securities from the companies on the SBA's list of "Scrutinized Companies."

The Trustees of the SBA set forth policy language (August 2017) prohibiting the investment in (a) any financial institution or company domiciled in the United States, which directly or through a United States or foreign subsidiary and in violation of federal law, makes any loan, extends credit of any kind or character, advances funds in any manner, or purchases or trades any goods or services in or with the government of Venezuela; and (b) any securities issued by the government of Venezuela or any company that is majority-owned by the government of Venezuela. The Treasury will also refrain from acquiring such securities.

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**Section 4**  
**INVESTMENT POLICIES**

## **Article XXV**

### **Investment Policy for Liquidity Portfolio**

#### **OBJECTIVES**

The objective of the Liquidity Portfolio is to provide the funds necessary to meet the State and the Special Purpose Investment Account (SPIA) cash disbursement needs. The Portfolio will invest primarily in the 0 to 3-month area of the yield curve.

#### **PERMITTED SECURITIES**

##### **Investment Vehicles and Restrictions – All securities must be U.S. dollar-denominated**

##### **Only those securities identified below may be purchased.**

1. Repurchase Agreements
  - Counterparties must be on the “Approved Repo Counterparty List”.
  - Acceptable collateral as follows:

	<b>Treasuries and Non-Subordinated Agency Obligations</b>	<b>Agency Mortgage-Backed Securities (Pass Throughs – Fixed Rate only)</b>
<b>TriParty Repos:</b>		
30 days or less	101% (market value including accrued interest)	102% (market value including accrued interest)
<b>DVP Repos:</b>		
7 days or less	101% (market value including accrued interest)	None
8 to 30 days	102% (market value including accrued interest)	None

2. U.S. Government Money Market Funds Regulated by the SEC Rule 2a-7
  - Must be rated AAA by at least one nationally recognized rating service (S&P, Moody’s, or Fitch),
  - Fund must have a minimum of \$20 billion in assets.
  - Invest exclusively in obligations issued or guaranteed by the U.S. Government and its agencies and instrumentalities and in repurchase agreements collateralized by such securities
  - No more that \$500 million par amount per fund.

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### 3. Commercial Paper

- Acceptable Commercial Paper as follows:

RATINGS			MATURITY	AMOUNT
Short Term Issuer Rating - by at least 2	Ultimate Parent (or issuer if the same) Long Term Rating - by at least 2	Negative Outlook / Watch for either Issuer or Ultimate Parent - by any of the 3 Agencies		Max. Par amount per issuer (Parent & all Subsidiaries Combined)
* A1+ from S&P * P1 from Moody's * F1+ from Fitch	* AA- from S&P * Aa3 from Moody's * AA- from Fitch	No	Next business day	\$300 million
			7 days or less	\$250 million
			45 days or less	\$200 million
* A1+ from S&P * P1 from Moody's * F1+ from Fitch	* AA- from S&P * Aa3 from Moody's * AA- from Fitch	Yes	Next business day	\$200 million
			7 days or less	\$175 million
			31 days or less	\$150 million
* A1 from S&P * P1 from Moody's * F1 from Fitch	* A- from S&P * A3 from Moody's * A- from Fitch	No	Next business day	\$120 million
			7 days or less	\$110 million
			15 days or less	\$100 million
* A1 from S&P * P1 from Moody's * F1 from Fitch	* A- from S&P * A3 from Moody's * A- from Fitch	Yes	Next business day	\$100 million
			7 days or less	\$80 million

- No more than \$1.2 billion par amount in total at any given time.
  - Issued by any entity domiciled in the United States.
  - Commercial Paper from any issuer that is rated A-2 by S&P or P-2 by Moody's or F-2 by Fitch (or below) is not permitted.
  - Types of Commercial Paper programs allowed: 3(a)2, 3(a)3, 4(2) and 144A.
  - Asset-Backed Commercial Paper obligations are not permitted.
4. U.S. Treasury Obligations
    - No limits.
  5. U.S. Government Agencies
    - Subordinated U.S. Government Agencies are not allowed.
    - No limits.

## **COUNTERPARTIES**

All trades must be conducted with a Broker-Dealer on the "Approved Broker-Dealer List" except for trading mutual funds, Israel Bonds or commercial paper which can be traded with a direct issuer.

## **MAXIMUM MATURITIES**

There is a one-year maximum maturity per individual security.

## **EVALUATION**

The investment performance of the Liquidity Portfolio will be benchmarked to the Merrill Lynch 0-3 months U.S. Treasury Bills.

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## **Article XXVI**

### **Investment Policy for Ultra-Short Duration Portfolio**

#### **OBJECTIVES:**

The Ultra-Short Duration Portfolio is the back-up liquidity to the Liquidity Portfolio. The objective of this portfolio is to be actively managed, to provide total net rate of return in excess of the benchmark, while focusing primarily on the six to eighteen-month area of the yield curve.

#### **PERMITTED SECURITIES**

##### **Investment Vehicles and Restrictions – All securities must be U.S. dollar-denominated**

##### **Only those securities identified below may be purchased.**

1. U.S. Treasury Obligations
  - No limits.
  
2. U.S. Government Agencies
  - Subordinated U.S. Government Agencies are not allowed.
  - No limits.
  
3. U.S. Government Money Market Funds Regulated by the SEC Rule 2a-7
  - Must be rated AAA by at least one nationally recognized rating service (S&P, Moody’s, or Fitch).
  - Fund must have a minimum of \$20 billion in assets.
  - Invest exclusively in obligations issued or guaranteed by the U.S. Government and its agencies and instrumentalities and in repurchase agreements collateralized by such securities
  - No more that \$100 million par amount per fund.
  
4. Repurchase Agreements
  - Counterparties must be on the “Approved Repo Counterparty List”.
  - Acceptable collateral as follows:

	<b>Treasuries and Non-Subordinated Agency Obligations</b>	<b>Agency Mortgage-Backed Securities (Pass Throughs – Fixed Rate only)</b>
<b>TriParty Repos:</b>		
30 days or less	101% (market value including accrued interest)	102% (market value including accrued interest)
<b>DVP Repos:</b>		
7 days or less	101% (market value including accrued interest)	None
8 to 30 days	102% (market value including accrued interest)	None

5. Corporate Obligations (including Commercial Paper)
  - All corporate debentures must be registered with the SEC or issued under Rule 144A except for debentures issued by a Bank under Section 3(a)2 and whose ultimate parent is a U.S. Corporation.
  - Must be rated (BBB/Baa2/BBB) or greater by at least two nationally recognized rating services (S&P, Moody's, and Fitch) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
  - Subordinated corporate obligations are not allowed.
  - Commercial paper shall be rated at least A1, P1 or F1 by at least two nationally recognized rating services (S&P, Moody's and Fitch).
  - Commercial Paper from any issuer that is rated A-2 by S&P or P-2 by Moody's or F-2 by Fitch (or below) is not permitted.
  - Types of Commercial Paper Programs allowed: 3(a)2, 3(a)3, 4(2) and 144A.
  - Asset-Backed Commercial Paper Obligations are not permitted.
  - The securities of any one corporate issuer shall not comprise more than 1.5% of the account's market value.
  - Maximum maturity per individual security:
    1. For newly issued securities, 25 months
    2. For secondary offers, 24 months
  
6. Foreign Obligations
  - Must be registered with the SEC.
  - Must be rated in any one of the two highest classifications by at least two nationally recognized rating service (AA-/Aa3/AA- or greater) except foreign corporate debentures which must be rated (BBB/Baa2/BBB) or greater by at least two nationally recognized rating services (S&P, Moody's and Fitch) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
  - Subordinated foreign obligations are not allowed.
  - Commercial paper issued by foreign domiciled corporations is not permitted.
  - The securities of any one issuer shall not comprise more than 1.5% of the account's market value.
  - Maximum maturity per individual security:
    1. For newly issued securities, 25 months
    2. For secondary offers, 24 months
  - No securities issued by the entities on the list of "Scrutinized Companies", as provided by Protecting Florida's Investments Act (PFIA) (F.S. 215.473), may be purchased or held in the portfolio.
  - No securities issued by entities on the list of "Scrutinized Companies that Boycott Israel" as provided by the prohibited investments by the Florida State Board of Administration (SBA); Companies that Boycott Israel (F.S. 215.4725).
  
7. Municipal Securities
  - Must be rated (BBB/Baa2/BBB) or greater by at least two nationally recognized rating services (S&P, Moody's, and Fitch) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
  - Appropriation-backed obligations are not permitted.

- The securities of any one municipal bond issuer shall not comprise more than 1.5% of the account's market value.
- Maximum maturity per individual security:
  1. For newly issued securities, 25 months
  2. For secondary offers, 24 months

#### 8. Asset-Backed Securities

- Must be registered with the SEC or issued under Rule 144A
- Must be rated in the highest classification (AAA/Aaa) by at least two NRSRO's as defined by the SEC. At least one of the ratings must be by one of the three major rating agencies (S&P, Moody's, or Fitch).
- Bonds with the highest short-term rating classification (A-1+/P-1/F1) by at least two NRSRO's as defined by the SEC are allowed only if the subsequent tranche meets the long-term ratings requirement described in the previous bullet. At least one of the short-term ratings must be by one of the three major rating agencies (S&P, Moody's or Fitch).
- Must have a Weighted Average Life equal or less than 5 years
- ABS containing any mortgage related Sub-prime or Alt-A components are not permitted.
- Tranches that are or were originally subordinated at issuance are not permitted.
- Subprime Auto ABS is restricted to the following:
  1. Only tickers allowed for purchase: AMCAR, SCART, and WOSAT.
  2. Weighted average life less than two and one-quarter (2.25) years
  3. Minimum per deal (or series) size of \$500 million and a minimum outstanding issuer (ticker or shelf) size of \$2 billion at the time of purchase
  4. Limited to sequential pay trusts.
- The securities of any one deal (or series) shall not comprise more than 2.0% of the account's market value.
- Unsecured consumer loans or asset backed by subprime receivables other than auto loans are not permitted.

### **SECTOR ALLOCATION**

Allocation weights are defined as the sector's market value divided by the total market value of the portfolio.

<u>Sectors</u>	<i>Target Ranges</i>	
	<u>Minimum</u>	<u>Maximum</u>
U.S. Treasury Obligations	40%	100%
U.S. Government Agency Obligations	0%	60%
Corporate Obligations	0%	10%
Asset-Backed Securities	0%	10%
Other Eligible Investments	0%	10%



## **OTHER RESTRICTIONS**

Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations, Structured Investment Vehicles, Special Purpose Entity Obligations and securities collateralized with any portion of Alt-A or Sub-Prime Mortgages are not permitted.

No securities issued by the entities on the list of “Scrutinized Companies”, as provided by Protecting Florida’s Investments Act (PFIA) (F.S. 215.473), may be purchased or held in the portfolio.

No securities issued by entities on the list of “Scrutinized Companies that Boycott Israel” as provided by the prohibited investments by the Florida State Board of Administration (SBA); Companies that Boycott Israel (F.S. 215.4725).

## **COUNTERPARTIES**

All trades must be conducted with a Broker-Dealer listed on the “Approved Broker-Dealer List” except for trading mutual funds, Israel Bonds or commercial paper which can be traded with a direct issuer.

## **RATING LIMITS**

Portfolio should hold no more than 3% of the portfolio’s market value in securities rated within the BBB range by S&P.

## **MAXIMUM DURATION**

The portfolio’s effective duration will not exceed 1.2 years.

## **EVALUATION**

The investment performance of the Ultra-Short Duration Portfolio will be benchmarked to the BofA Merrill Lynch 0-2 Year U.S. Treasuries Index.

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## **Article XXVII**

### **Investment Policy for Short Duration Portfolio**

#### **OBJECTIVES:**

The objective of the Short Duration Portfolio is to be actively managed, to provide total net rate of return in excess of the benchmark, while focusing primarily on the one to three year portion of the yield curve.

#### **PERMITTED SECURITIES**

##### **Investment Vehicles and Restrictions – All securities must be U.S. dollar-denominated**

##### **Only those securities identified below may be purchased.**

1. U.S. Treasury Obligations
  - No limits.
2. U.S. Government Agencies
  - Subordinated U.S. Government Agencies are not allowed.
  - No limits.
3. Corporate Obligations (including Commercial Paper)
  - All corporate debentures must be registered with the SEC or issued under Rule 144A except for debentures issued by a Bank under Section 3(a)2 and whose ultimate parent is a U.S. Corporation.
  - Must be rated by at least two nationally recognized rating services (S&P, Moody's, and Fitch) in any one of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
  - Subordinated corporate obligations are not allowed.
  - Commercial paper shall be rated at least A1, P1 or F1 by at least two nationally recognized rating services (S&P, Moody's and Fitch).
  - Commercial Paper from any issuer that is rated A-2 by S&P or P-2 by Moody's or F-2 by Fitch (or below) is not permitted.
  - Types of Commercial Paper Programs allowed: 3(a)2, 3(a)3, 4(2) and 144A.
  - Asset-Backed Commercial Paper Obligations are not permitted.
  - The securities of any one corporate issuer shall not comprise more than 2.0% of the account's market value.
4. Foreign Obligations
  - Must be registered with the SEC.
  - Must be rated by at least two nationally recognized rating services (S&P, Moody's and Fitch) in any of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).

- Subordinated foreign obligations are not allowed.
- Commercial paper issued by foreign domiciled corporations is not permitted.
- The securities of any one issuer shall not comprise more than 2.0% of the account's market value.
- No securities issued by the entities on the list of "Scrutinized Companies", as provided by Protecting Florida's Investments Act (PFIA) (F.S. 215.473), may be purchased or held in the portfolio.
- No securities issued by entities on the list of "Scrutinized Companies that Boycott Israel" as provided by the prohibited investments by the Florida State Board of Administration (SBA); Companies that Boycott Israel (F.S. 215.4725).

#### 5. Municipal Securities

- Must be rated by at least two nationally recognized rating services (S&P, Moody's and Fitch) in any of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
- Appropriation-backed obligations are not permitted.
- The securities of any one municipal bond issuer shall not comprise more than 2.0% of the account's market value.

#### 6. Asset-Backed Securities

- Must be registered with the SEC or issued under Rule 144A
- Must be rated in the highest classification (AAA/Aaa) by at least two NRSRO's as defined by the SEC. At least one of the ratings must be by one of the three major rating agencies (S&P, Moody's, or Fitch).
- Bonds with the highest short-term rating classification (A-1+/P-1/F1) by at least two NRSRO's as defined by the SEC are allowed only if the subsequent tranche meets the long-term ratings requirement described in the previous bullet. At least one of the short-term ratings must be by one of the three major rating agencies (S&P, Moody's or Fitch).
- Must have a Weighted Average Life equal or less than 5 years
- ABS containing any mortgage related Sub-prime or Alt-A components are not permitted.
- Tranches that are or were originally subordinated at issuance are not permitted.
- Subprime Auto ABS is restricted to the following:
  1. Only tickers allowed for purchase: AMCAR, SCART, and WOSAT.
  2. Weighted average life less than two and one-quarter (2.25) years
  3. Minimum per deal (or series) size of \$500 million and a minimum outstanding issuer (ticker or shelf) size of \$2 billion at the time of purchase.
  4. Limited to sequential pay trusts.
- The securities of any one deal (or series) shall not comprise more than 2.0% of the account's market value.
- Unsecured consumer loans or assets backed by subprime receivables other than auto loans are not permitted.

## **SECTOR ALLOCATION**

Allocation weights are defined as the sector's market value divided by the total market value of the portfolio.

<u>Sectors</u>	<i>Target Ranges</i>	
	<u>Minimum</u>	<u>Maximum</u>
U.S. Treasury Obligations	40%	100%
U.S. Government Agency Obligations	0%	60%
Corporate (Domestic/Foreign) Obligations	0%	30%
Asset Backed Securities	0%	20%
Other Eligible Securities	0%	10%

## **OTHER RESTRICTIONS**

Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations, Structured Investment Vehicles, Special Purpose Entity Obligations and securities collateralized with any portion of Alt-A or Sub-Prime Mortgages are not permitted.

No securities issued by the entities on the list of "Scrutinized Companies", as provided by Protecting Florida's Investments Act (PFIA) (F.S. 215.473), may be purchased or held in the portfolio.

No securities issued by entities on the list of "Scrutinized Companies that Boycott Israel" as provided by the prohibited investments by the Florida State Board of Administration (SBA); Companies that Boycott Israel (F.S. 215.4725).

## **COUNTERPARTIES**

All trades must be conducted with a Broker-Dealer listed on the "Approved Broker-Dealer List" except for trading mutual funds, Israel Bonds or commercial paper which can be traded with a direct issuer.

## **RATING LIMITS**

Portfolio should hold no more than 7.5% of the portfolio's market value in securities rated within the BBB range by S&P.

## **MAXIMUM DURATION**

The portfolio's effective duration will not exceed three (3) years.

## **EVALUATION**

**The investment performance of the Short Duration Portfolio will be benchmarked to the Merrill Lynch 1-3 Year Government/Corporate with A or better rating.**

## **Article XXVIII**

### **Investment Policy for Intermediate Duration Portfolio**

#### **OBJECTIVE**

The objective of the Intermediate Duration Portfolio is to be actively managed, to provide total net rate of return in excess of the benchmark, while maintaining an effective duration of less than 5 years.

#### **PERMITTED SECURITIES**

##### **Investment Vehicles and Restrictions – All securities must be U.S. dollar-denominated**

##### **Only those securities identified below may be purchased.**

1. U.S. Government and Agency Bonds
  - No limits.
2. Corporate Obligations (including Commercial Paper)
  - All corporate debentures must be registered with the SEC or issued under Rule 144A except for debentures issued by a Bank under Section 3(a)2 and whose ultimate parent is a U.S. Corporation or securities issued under Section 3(a)4 of the 1933 Securities Act rated by at least two nationally recognized rating services (S&P, Moody's and Fitch) in any of the three highest classifications (A-/A3/A- or greater).
  - Long-term obligations must be rated by at least two nationally recognized rating services (S&P, Moody's and Fitch) in any of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
  - Commercial paper shall be rated at least A1, P1 or F1 by at least two nationally recognized rating services (S&P, Moody's and Fitch).
  - Commercial Paper from any issuer that is rated A-2 by S&P or P-2 by Moody's or F-2 by Fitch (or below) is not permitted.
  - Types of Commercial Paper Programs allowed: 3(a)2, 3(a)3, 4(2) and 144A.
  - Asset-Backed Commercial Paper Obligations are not permitted.
  - Equipment Trust Certificates and Enhanced Equipment Trust Certificates are permitted investments.
  - Convertible securities are not permitted.
  - Preferred Stock and Trust Preferred Securities are not permitted.
  - Securities with maturities which are extendable by the issuer are not permitted.
  - Payment-In-Kind ("PIK") securities are not permitted.
  - The securities of any one corporate issuer shall not comprise more than 1.5% of the account's market value.
3. Foreign Obligations
  - Must be registered with the SEC.

- Must be rated by at least two nationally recognized rating services (S&P, Moody's, and Fitch) in any of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
  - Commercial paper issued by foreign domiciled corporations is not permitted.
  - Equipment Trust Certificates and Enhanced Equipment Trust Certificates are permitted investments.
  - Convertible securities are not permitted.
  - Preferred Stock and Trust Preferred Securities are not permitted.
  - Securities with maturities which are extendable by the issuer, with the exception of Covered Bonds, are not permitted.
  - Payment-In-Kind ("PIK") securities are not permitted.
  - The securities of any one foreign issuer shall not comprise more than 1.5% of the account's market value.
  - No securities issued by the entities on the list of "Scrutinized Companies", as provided by Protecting Florida's Investments Act (PFIA) (F.S. 215.473), may be purchased or held in the portfolio.
  - No securities issued by entities on the list of "Scrutinized Companies that Boycott Israel" as provided by the prohibited investments by the Florida State Board of Administration (SBA); Companies that Boycott Israel (F.S. 215.4725).
4. U.S Agency Mortgage-Backed Securities
- Mortgage-Backed Securities shall include, but not be limited to, adjustable-rate mortgage securities, fixed rate mortgage securities and mortgage products such as Collateralized Mortgage Obligations (CMOs) and Real Estate Mortgage Investment Conduit (REMICs), Commercial Mortgage-Backed Securities (CMBS) and stripped mortgage securities..
  - Only tranches that were originally senior at issuance are permitted.
  - Sub-prime Mortgage-Backed Securities are not permitted.
  - Alt-A Mortgage-Backed Securities are not permitted.
  - No more than 1.5% of an account's market value shall be invested in interest-only strips (IOs).
5. U.S. Agency Mortgage-Backed To-Be-Announced (TBA) Securities
- Mortgage TBAs / TBA Dollar Rolls are limited to 20% of the account's market value. Leverage, defined as increasing investment risk by creating liabilities that cannot be funded by cash or cash equivalent assets held in the account, may not exceed 10% of the account's market value.
  - Managers must monitor and limit their TBA counterparty exposure. No more than 5% of the account's market value can be in TBAs with any one counterparty on a net basis.
  - Counterparties to all TBA transactions must have an S&P short-term rating of A-1 or better
6. Private Label Mortgage-Backed Securities
- Must be registered with the SEC or issued under Rule 144A.
  - Mortgage-Backed Securities shall include, but not be limited to, adjustable-rate mortgage securities, fixed rate mortgage securities, and mortgage products such as Collateralized Mortgage Obligations (CMOs), Real Estate Mortgage Investment Conduit (REMICs), Commercial Mortgage-Backed Securities (CMBS) and stripped mortgage securities.

- Must be rated in the highest rating classification (AAA/Aaa) by at least one nationally recognized rating service (S&P, Moody's and Fitch)
- Only tranches that were originally senior at issuance are permitted.
- Sub-prime Mortgage-Backed Securities are not permitted.
- Alt-A Mortgage-Backed Securities are not permitted.
- The securities of any one Trust shall not comprise more than 1.5% of the account's market value.
- No more than 1.5% of an account's market value shall be invested in interest-only strips (IOs).

#### 7. Municipal Securities

- Rated by at least two nationally recognized rating services (S&P, Moody's and Fitch) in any of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).  
The securities of any one municipal bond issuer shall not comprise more than 1.5% of the account's market value.

#### 8. U.S. Government Guaranteed Asset-Backed Securities

- The securities of any one Asset-Backed Securities Certificate Program shall not comprise more than 1.5% of the account's market value.

#### 9. Private Label Asset-Backed Securities

- Must be registered with the SEC or issued under Rule 144A.
- Must be rated in the highest rating classification (AAA/Aaa) by at least two NRSRO's as defined by the SEC. At least one of the ratings must be by one of the three major rating agencies (S&P, Moody's or Fitch).
- ABS containing any mortgage related Sub-prime or Alt-A components are not permitted.
- Tranches that are or were originally subordinated at issuance are not permitted.
- Subprime Auto ABS is restricted to the following:
  - Only tickers allowed for purchase: AMCAR, SCART, and WOSAT.
  - Weighted average life less than two and one-quarter (2.25) years
  - Minimum per deal (or series) size of \$500 million and a minimum outstanding issuer (ticker or shelf) size of \$2 billion at the time of purchase.
  - Limited to sequential pay trusts.
- The securities of any one deal (or series) shall not comprise more than 1.5% of the account's market value.
- Unsecured consumer loans or assets backed by subprime receivables other than auto loans are not permitted.

### **OTHER RESTRICTIONS**

Options, Futures, Swaps, Repurchase Agreements, Reverse Repurchase Agreements, Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations, Structured Investment Vehicles, Special Purpose Entity Obligations and any securities collateralized with any portion of Alt-A or Sub-Prime Mortgages are not permitted.

Florida Treasury does not permit the use of Soft Dollar agreements in conjunction with trading in our portfolios by any manager.

Leverage, defined as increasing investment risk by creating liabilities that cannot be funded by cash or cash equivalent assets held in the account, may not exceed 10% of the account's market value.

No securities issued by the entities on the list of "Scrutinized Companies", as provided by Protecting Florida's Investments Act (PFIA) (F.S. 215.473), may be purchased or held in the portfolio.

No securities issued by entities on the list of "Scrutinized Companies that Boycott Israel" as provided by the prohibited investments by the Florida State Board of Administration (SBA); Companies that Boycott Israel (F.S. 215.4725).

Monthly net realized losses are limited to a maximum of 75% of a Manager's income unless approved by the Treasury.

### **RATING LIMITS**

Each External Manager account should hold no more than 10% of the market value in securities rated within the BBB range by S&P.

### **MAXIMUM DURATION**

The account's effective duration must be less than five (5) years.

### **REQUESTS FOR CONSENT, NO OPT-OUT PROVISIONS**

Managers are not permitted, under any circumstances, to include an Opt-Out clause, wherein consent is deemed to be granted if no response is provided within a designated time frame, when requesting Treasury's consent to any change. Managers requesting Treasury's consent to any modification or change to the Investment Manager Agreement (i.e. Consent to Assignment), operational activities or any related matter (i.e. cross trading, etc.) must obtain written approval before consent is deemed granted.

### **MONTHLY COMPLIANCE CERTIFICATION**

Managers will be required to provide to Treasury a signed monthly certification that:

- All assets held in their account are either in compliance with applicable Florida Statutes and this Investment Policy, or have been approved for Basket Clause status, or are in the process of review for Basket Clause consideration with the Investment Work Group
- No securities issued by the entities on the list of "Scrutinized Companies", as provided by Protecting Florida's Investments Act (PFIA), are held in the portfolio.



## **EVALUATION**

The investment performance of the individual Intermediate Duration Investment Managers will be evaluated by comparison with the Bloomberg Barclays U.S. Intermediate Aggregate Index on a total return basis and against the other managers in the Program. Treasury will incorporate risk measures as deemed appropriate in the evaluation process comparing Program managers to their peers, as well as managers in comparable fixed income universes.

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## **Article XXIX**

### **Investment Policy for Long Duration Portfolio**

#### **OBJECTIVE**

The objective of the Long Duration Portfolio is to be actively managed, to provide total net rate of return in excess of the benchmark, while maintaining an effective duration of less than 7 years.

#### **PERMITTED SECURITIES**

##### **Investment Vehicles and Restrictions – All securities must be U.S. dollar-denominated**

##### **Only those securities identified below may be purchased.**

1. U.S. Government and Agency Bonds
  - No limits.
2. Corporate Obligations (including Commercial Paper)
  - All corporate debentures must be registered with the SEC or issued under Rule 144A except for debentures issued by a Bank under Section 3(a)2 and whose ultimate parent is a U.S. Corporation or securities issued under Section 3(a)4 of the 1933 Securities Act rated by at least two nationally recognized rating services (S&P, Moody's and Fitch) in any of the three highest classifications (A-/A3/A- or greater).
  - Long-term obligations must be rated by at least two nationally recognized rating services (S&P, Moody's and Fitch) in any of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
  - Commercial paper shall be rated at least A1, P1 or F1 by at least two nationally recognized rating services (S&P, Moody's and Fitch).
  - Commercial Paper from any issuer that is rated A-2 by S&P or P-2 by Moody's or F-2 by Fitch (or below) is not permitted.
  - Types of Commercial Paper Programs allowed: 3(a)2, 3(a)3, 4(2) and 144A.
  - Asset-Backed Commercial Paper Obligations are not permitted.
  - Equipment Trust Certificates and Enhanced Equipment Trust Certificates are permitted investments.
  - Convertible securities are not permitted.
  - Preferred Stock and Trust Preferred Securities are not permitted.
  - Securities with maturities which are extendable by the issuer are not permitted.
  - Payment-In-Kind ("PIK") securities are not permitted.
  - The securities of any one corporate entity shall not comprise more than 2.0% of the account's market value.
3. Foreign Obligations
  - Must be registered with the SEC.

- Must be rated by at least two nationally recognized rating services (S&P, Moody’s and Fitch) in any of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
  - Commercial paper issued by foreign domiciled corporations is not permitted.
  - Equipment Trust Certificates and Enhanced Equipment Trust Certificates are permitted investments.
  - Convertible securities are not permitted.
  - Preferred Stock and Trust Preferred Securities are not permitted.
  - Securities with maturities which are extendable by the issuer, with the exception of Covered Bonds, are not permitted.
  - Payment-In-Kind (“PIK”) securities are not permitted.
  - The securities of any one foreign issuer shall not comprise more than 2.0% of the account’s market value.
  - No securities issued by the entities on the list of “Scrutinized Companies”, as provided by Protecting Florida’s Investments Act (PFIA) (F.S. 215.473), may be purchased or held in the portfolio.
  - No securities issued by entities on the list of “Scrutinized Companies that Boycott Israel” as provided by the prohibited investments by the Florida State Board of Administration (SBA); Companies that Boycott Israel (F.S. 215.4725).
4. U.S. Agency Mortgage-Backed Securities
- Mortgage-Backed Securities shall include, but not be limited to, adjustable rate mortgage securities, fixed rate mortgage securities, and mortgage products such as Collateralized Mortgage Obligations (CMOs), Real Estate Mortgage Investment Conduit (REMICs), Commercial Mortgage-Backed Securities (CMBS) and stripped mortgage securities.
  - Only tranches that were originally senior at issuance are permitted.
  - Sub-prime Mortgage-Backed Securities are not permitted.
  - Alt-A Mortgage-Backed Securities are not permitted.
  - No more than 2% of an account’s market value shall be invested in interest-only strips (IOs).
5. U.S. Agency Mortgage-Backed To-Be-Announced (TBA) Securities
- Mortgage TBAs / TBA Dollar Rolls are limited to 20% of the account’s market value. Leverage, defined as increasing investment risk by creating liabilities that cannot be funded by cash or cash equivalent assets held in the account, may not exceed 10% of the account’s market value.
  - Managers must monitor and limit their TBA counterparty exposure. No more than 5% of the account’s market value can be in TBAs with any one counterparty on a net basis.
  - Counterparties to all TBA transactions must have an S&P short-term rating of A-1 or better.
6. Private Label Mortgage-Backed Securities
- Must be registered with the SEC or issued under Rule 144A.
  - Mortgage-Backed Securities shall include, but not be limited to, adjustable rate mortgage securities, fixed rate mortgage securities, and mortgage products such as Collateralized Mortgage Obligations (CMOs), Real Estate Mortgage Investment Conduit (REMICs), Commercial Mortgage-Backed Securities (CMBS) and stripped mortgage securities.

- Must be rated in the highest rating classification (AAA/Aaa) by at least one nationally recognized rating service (S&P, Moody's and Fitch)
- Only tranches that were originally senior at issuance are permitted.
- Sub-prime Mortgage-Backed Securities are not permitted.
- Alt-A Mortgage-Backed Securities are not permitted.
- The securities of any one Trust shall not comprise more than 2.0% of the account's market value.
- No more than 2% of an account's market value shall be invested in interest-only strips (IOs).

#### 7. Municipal Securities

- Rated by at least two nationally recognized rating services (S&P, Moody's and Fitch) in any of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
- The securities of any one municipal bond issuer shall not comprise more than 2.0% of the account's market value.

#### 8. U.S. Government Guaranteed Asset-Backed Securities

The securities of any one Asset-Backed Securities Certificate Program shall not comprise more than 2.0% of the account's market value.

#### 9. Private Label Asset-Backed Securities

- Must be registered with the SEC or issued under Rule 144A.
- Must be rated in the highest rating classification (AAA/Aaa) by at least two NRSRO's as defined by the SEC. At least one of the ratings must be by one of the three major rating agencies (S&P, Moody's, or Fitch).
- ABS containing any mortgage related Sub-prime or Alt-A components are not permitted.
- Tranches that are or were originally subordinated at issuance are not permitted.
- Subprime Auto ABS is restricted to the following:
  - Only tickers allowed for purchase: AMCAR, SDART, and WOSAT.
  - Weighted average life less than two and one-quarter (2.25) years
  - Minimum per deal (or series) size of \$500 million and a minimum outstanding issuer (ticker or shelf) size of \$2 billion, at the time of purchase.
  - Limited to sequential pay trusts.
- The securities of any one deal (or series) shall not comprise more than 2.0% of the account's market value.
- Unsecured consumer loans or assets backed by subprime receivables other than auto loans are not permitted.

#### 10. Interest Rate Futures

- The only type of futures permitted is interest rate futures.
- The instruments for such purpose must be traded on a securities exchange or board of trade regulated by the Securities and Exchange Commission or the Commodity Futures Trading Commission.
- Managers may take long or short positions in interest rate futures provided the contribution to duration of all interest rate futures positions (on a net basis) shall not exceed one (1) year.

- Counterparties to all permissible interest rate futures transactions must have a short-term S&P rating of A-2 or better for overnight settlement and a short-term S&P rating of A-1 or better for all futures transactions with settlement greater than overnight, but less than one year.

## **OTHER RESTRICTIONS**

Repurchase Agreements, Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations, Structured Investment Vehicles, Special Purpose Entity Obligations, swaps or other derivative contracts and any securities collateralized with any portion of Alt-A or Sub-Prime Mortgages are not permitted.

Florida Treasury does not permit the use of Soft Dollar agreements in conjunction with trading in our portfolios by any manager.

Leverage, defined as increasing investment risk by creating liabilities that cannot be funded by cash or cash equivalent assets held in the account, may not exceed 10% of the account's market value.

No securities issued by the entities on the list of "Scrutinized Companies", as provided by Protecting Florida's Investments Act (PFIA) (F.S. 215.473), may be purchased or held in the portfolio.

No securities issued by entities on the list of "Scrutinized Companies that Boycott Israel" as provided by the prohibited investments by the Florida State Board of Administration (SBA); Companies that Boycott Israel (F.S. 215.4725).

Monthly net realized losses are limited to a maximum of 75% of a Manager's income unless approved by the Treasury.

## **RATING LIMITS**

Each External Manager account should hold no more than 15% of the market value in securities rated within the BBB range by S&P.

## **MAXIMUM DURATION**

The account's effective duration must be less than seven (7) years.

## **REQUESTS FOR CONSENT, NO OPT-OUT PROVISIONS**

Managers are not permitted, under any circumstances, to include an Opt-Out clause, wherein consent is deemed to be granted if no response is provided within a designated time frame, when requesting Treasury's consent to any change. Managers requesting Treasury's consent to any modification or change to the Investment Manager Agreement (i.e. Consent to Assignment), operational activities or any related matter (i.e. cross trading, etc.) must obtain written approval before consent is deemed granted.

## **MONTHLY COMPLIANCE CERTIFICATION**

Managers will be required to provide to Treasury a signed monthly certification that:

- All assets held in their account are either in compliance with applicable Florida Statutes and this Investment Policy, or have been approved for Basket Clause status, or are in the process of review for Basket Clause consideration with the Investment Work Group,
- All applicable transactions are conducted with counterparties that meet the credit rating requirements.
- No securities issued by the entities on the list of “Scrutinized Companies”, as provided by Protecting Florida’s Investments Act (PFIA), are held in the portfolio.

## **EVALUATION**

**The investment performance of the individual Long Duration Investment Managers will be evaluated by comparison with the Bloomberg Barclays Capital U.S. Aggregate Bond Index on a total return basis and against the other managers in the Program. Treasury will incorporate risk measures as deemed appropriate in the evaluation process comparing Program managers to their peers, as well as managers in comparable fixed income universes.**

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## **Article XXX**

### **Investment Policy for Securities Lending**

#### **OBJECTIVES**

The Securities Lending program is structured to provide additional income with the objective of preserving principal given the parameters and risk tolerance provided below. A sufficient level of liquidity will be maintained to facilitate the security movements of all assets in the participating portfolios.

#### **PERMITTED SECURITIES**

##### **Investment Vehicles and Restrictions -- All securities must be U.S. dollar-denominated**

##### **Only those securities identified below may be purchased.**

###### 1. Liquidity requirement

- No less than 20% of the Investment Pool will be invested in overnight securities.

###### 2. Repurchase Agreements

- Repurchase agreements may not exceed a 60 days final maturity at the time of purchase.
- No more than 20% of the portfolio's market value, at the time of purchase, may be invested in any one counterparty (subsidiaries and holding company of the same organization will count as one counterparty).
- Counterparties must have a short-term rating of A-1 or better from S&P.
- Acceptable collateral is as follows:  
U.S. Treasuries, U.S. Agency Debentures (FFCB, FHLB, FNMA and FHLMC) and U.S. Agency Mortgage Backed Pass-through Certificates only (no MBS Strips or CMOs/REMICs)
- Margin of at least 102% on all Repos, regardless of collateral type and type of Repo (Tri-Party or DVP). All Repos need to be marked-to-market daily and brought to, at minimum, the 102% collateralization level.

###### 3. Commercial Paper

- Issuers must be rated in any 2 of the following 3 categories:
  - A1 or A1+ from S&P
  - P1 from Moody's
  - F1 or F1+ from Fitch
- Issued by any entity domiciled in the United States.
- Asset-Backed Commercial Paper Obligations are not permitted.
- Commercial Paper will be combined with all other holdings of the same issuer within the portfolio in order to calculate concentration levels. The portfolio can hold up to 1.5% of market value in any one issuer at the time of purchase.

4. Money Market Mutual Funds Regulated by the SEC Rule 2a-7
  - Fund can only hold U.S. Treasury Obligations, U.S. Government Agency Obligations and repurchase agreements which are collateralized with U.S. Treasury and U.S. Government Agency obligations. There is a \$200 million per fund limit.
  - Must be rated AAA by at least one nationally recognized rating service (S&P, Moody's, and Fitch).
5. U.S. Treasury Obligations
  - Maturity cannot exceed two (2) years at the time of purchase.
  - No other limits.
6. U.S. Government Agencies
  - U.S. Government Agencies include Federal Farm Credit Banks, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Agricultural Mortgage Corporation, and any Agency obligation fully backed and guaranteed by the United States.
  - Subordinated U.S. Government Agency debt is not permitted.
  - Maturity cannot exceed two (2) years at the time of purchase.
  - No other limits.
7. Corporate Obligations (US domiciled)
  - All corporate debentures must be registered with the SEC or issued under Rule 144A except for debentures issued by a Bank under Section 3(a)2 and whose ultimate parent is a U.S. Corporation.
  - Must be rated by at least two nationally recognized rating services (S&P, Moody's, and Fitch) in any one of the three highest classifications (A-/A3/A- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
  - Corporate debt will be combined with all other holdings of the same issuer within the portfolio in order to calculate concentration levels. The portfolio can hold up to 1.5% of market value in any one issuer at the time of purchase.
  - The final maturity cannot exceed two (2) years at the time of purchase.
  - Securities with maturities which are extendable are not permitted.
  - Subordinated debt is not permitted.
8. Foreign Securities (domiciled outside the United States)
  - The security must be registered with the SEC.
  - Must be rated by a least two nationally recognized rating services in any one of the three highest classifications (A-/A3/A- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater.)
  - The final maturity cannot exceed two (2) years at the time of purchase.
  - Securities with maturities which are extendable are not permitted.
  - Foreign debt will be combined with all other holdings of the same issuer within the portfolio in order to calculate concentration levels. The portfolio can hold up to 1.5 % of market value in any one issuer at the time of purchase.
  - Subordinated debt is not permitted.



- No securities issued by the entities on the list of “Scrutinized Companies”, as provided by Protecting Florida’s Investments Act (PFIA) (F.S. 215.473), may be purchased or held in the portfolio.
- No securities issued by entities on the list of “Scrutinized Companies that Boycott Israel” as provided by the prohibited investments by the Florida State Board of Administration (SBA); Companies that Boycott Israel (F.S. 215.4725).

9. Mortgage- Backed Securities and Asset-Backed Securities are not permitted.

### **OTHER RESTRICTIONS**

Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations, Structured Investment Vehicles, Special Purpose Entity Obligations and securities collateralized with any portion of Alt-A or Sub-Prime Mortgages are not permitted.

No securities issued by the entities on the list of “Scrutinized Companies”, as provided by Protecting Florida’s Investments Act (PFIA) (F.S. 215.473), may be purchased or held in the portfolio.

No securities issued by entities on the list of “Scrutinized Companies that Boycott Israel” as provided by the prohibited investments by the Florida State Board of Administration (SBA); Companies that Boycott Israel (F.S. 215.4725).

### **SECTOR LIMITS**

At the time of purchase, portfolio should hold no more than 50% of the portfolio’s market value in non-U.S. government securities.

### **ASSET / LIABILITY GAP**

The maximum allowed GAP is 30 days. GAP is defined as the difference between the weighted average days to maturity (WAM) of the portfolio minus the weighted average days to maturity of the liabilities (loans). For investments that have a floating interest rate, the shorter of either maturity, next put option date (if applicable) or the next interest rate reset date should be used to calculate WAM.

### **CREDIT RATING FOR LONG-TERM OBLIGATIONS**

The credit rating of long-term obligations is determined at the time of issuance. Obligations issued with maturities greater than one year will be considered long-term for the life of the obligation and its corresponding long-term credit rating will be the criterion used when determining credit quality.

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## **Article XXXI**

### **Investment Policy for Short-Term Investment Fund (STIF)**

#### **OBJECTIVES**

The investment objectives of this policy, in order of priority, are as follows:

- Maintain a degree of liquidity appropriate to accommodate the requirements of the Treasury’s portfolios participating in the STIF.
- Preserve principal.
- Deliver competitive returns subject to prevailing market conditions.

#### **PERMITTED SECURITIES**

**Investment Vehicles and Restrictions -- All securities must be U.S. dollar-denominated**

**Only those securities identified below may be purchased.**

1. Tri-Party Repurchase agreements Acceptable collateral and collateralization level:

<b>Treasuries and Non-Subordinated Agency Obligations</b>	<b>Agency Mortgage-Backed Securities (Pass Throughs – Fixed Rate only)</b>
101% (market value including accrued interest)	102% (market value including accrued interest)

- Repurchase agreement limits as follow:

<b>Maturity</b>	<b>Maximum Par Amount</b>
Next business day	No limit
7 days or less	\$150 million
30 days or less	\$75 million

- Counterparties must be on the “Approved Repo Counterparty List”.
  - No more than 25% of the portfolio’s total assets may be invested in term repurchase agreements with any one counterparty.
2. U.S. Government Money Market Funds Regulated by the SEC Rule 2a-7
    - Must be rated AAA by at least one nationally recognized rating service (S&P, Moody’s, or Fitch).
    - Fund must have a minimum of \$20 billion in assets.
    - Invest exclusively in obligations issued or guaranteed by the U.S. Government and its agencies and instrumentalities and in repurchase agreements collateralized by such securities
    - No more that \$400 million par amount per fund.

### 3. Commercial Paper (CP)

- Acceptable Commercial Paper as follows:

RATINGS			MATURITY	AMOUNT
Short Term Issuer Rating - by at least 2	Ultimate Parent (or issuer if the same) Long Term Rating - by at least 2	Negative Outlook / Watch for either Issuer or Ultimate Parent - by any of the 3 Agencies		Max. Par amount per issuer (Parent & all Subsidiaries Combined)
* A1+ from S&P * P1 from Moody's * F1+ from Fitch	* AA- from S&P * Aa3 from Moody's * AA- from Fitch	No	Next business day	\$100 million
			7 days or less	\$50 million
			90 days or less	\$30 million
* A1+ from S&P * P1 from Moody's * F1+ from Fitch	* AA- from S&P * Aa3 from Moody's * AA- from Fitch	Yes	Next business day	\$75 million
			7 days or less	\$40 million
			60 days or less	\$20 million
* A1 from S&P * P1 from Moody's * F1 from Fitch	* A- from S&P * A3 from Moody's * A- from Fitch	No	Next business day	\$50 million
			7 days or less	\$20 million
			30 days or less	\$10 million
* A1 from S&P * P1 from Moody's * F1 from Fitch	* A- from S&P * A3 from Moody's * A- from Fitch	Yes	Next business day	\$30 million
			7 days or less	\$15 million

- CP from any issuer that is rated A-2 by S&P or P-2 by Moody's, or F-2 by Fitch (or below) is not permitted.
  - Issued by any entity domiciled in the United States.
  - Asset-Backed CP Obligations are not permitted.
  - Types of CP Programs allowed: 3(a)2, 3(a)3, 4(2) and 144A.
  - No more than \$200 million par amount in total at any given time.
4. U.S. Treasury Obligations
- No Limits
5. U.S. Government Agencies
- U.S. Government Agencies include Federal Farm Credit Banks, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Agricultural Mortgage Corporation and any Agency obligation fully backed and guaranteed by the United States.
  - Subordinated U.S. Government Agencies are not allowed.
  - No limits.

### **OTHER RESTRICTIONS**

Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations, Structured Investment Vehicles, Special Purpose Entity Obligations and securities collateralized with any portion of Alt-A or Sub-Prime Mortgages are not permitted.

### **MAXIMUM MATURITIES**

Securities must have a final maturity that does not exceed 24 months at the time of purchase with the portfolio's maximum weighted average days to maturity may not exceed 90 days.

### **EVALUATION**

The investment performance of the Short-Term Investment Fund will be evaluated semi-annually by comparison with the Merrill Lynch 0-3 months U.S. Treasury Bills on a total return basis. Treasury will also consider the manager's ability to provide adequate liquidity to Program managers participating in the STIF.

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## **Article (XXXII)**

### **Investment Policy for Asset-Backed Securities Portfolio**

#### **OBJECTIVES:**

The objective of the Asset-Backed Securities Portfolio is to be actively managed, to provide total net rate of return in excess of the benchmark, while maintaining an effective duration of less than 3 years.

#### **PERMITTED SECURITIES**

##### **Investment Vehicles and Restrictions – All securities must be U.S. dollar-denominated**

##### **Only those securities identified below may be purchased.**

###### Asset-Backed Securities

- Must be registered with the SEC or issued under Rule 144A.
- Must be rated in the highest rating classification (AAA/Aaa) by at least two NRSRO's as defined by the SEC. At least one of the ratings must be one of the three major rating agencies (S&P, Moody's or Fitch).
- Bonds with the highest short-term rating classification (A-1+/P-1/F1) by at least two NRSRO's as defined by the SEC are allowed only if the subsequent tranche meets the long-term ratings requirement described in the previous bullet. At least one of the short-term ratings must be by one of the three major rating agencies (S&P, Moody's or Fitch).
- Must have a Weighted Average Life equal or less than 5 years.
- ABS containing any mortgage related Sub-prime or Alt-A components are not permitted.
- Tranches that are or were originally subordinated at issuance are not permitted.
- Subprime Auto ABS is restricted to the following:
  - Only tickers allowed for purchase: AMCAR, SDART, and WOSAT.
  - Weighted average life less than two and one-quarter (2.25) years. Minimum per deal (or series) size of \$500 million and a minimum outstanding issuer (ticker or shelf) size of \$2 billion, at the time of purchase.
  - Limited to sequential pay trusts.
- The securities of any one deal (or series) shall not comprise more than 2.0% of the account's market value.
- The securities of any one issuer (ticker or shelf) shall not comprise more than 5.0% of the account's market value.

#### **SECTOR ALLOCATION**

Securities within the asset-backed sector will comprise 100% of the sector allocation. Investment in securities of sectors other than the Asset-Backed Securities sector is prohibited with the exception of Cash Equivalent securities. For purposes of cash securities implementation, the Manager will participate in the Florida Treasury Cash Sweep Program. Investment in the Cash Equivalent securities

sector is limited to 5% maximum as Cash Equivalent securities should only be used for frictional transaction purposes. The target allocation to Cash Equivalent securities is 0%.

## **OTHER RESTRICTIONS**

Options, Futures, Swaps or any derivative products, Reverse Repurchase Agreements, Repurchase Agreements, Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations, Structured Investment Vehicles, Special Purpose Entity Obligations, swaps or other derivative contracts and any securities collateralized with any portion of Alt-A or Sub-Prime Mortgages are not permitted.

Florida Treasury does not permit the use of Soft Dollar agreements in conjunction with trading in our portfolios by any manager.

No explicit or implicit use of leverage is permitted.

Unsecured consumer loans or assets backed by subprime receivables other than auto loans are not permitted.

No securities issued by the entities on the list of “Scrutinized Companies”, as provided by Protecting Florida’s Investments Act (PFIA) (F.S. 215.473), may be purchased or held in the portfolio.

No securities issued by entities on the list of “Scrutinized Companies that Boycott Israel” as provided by the prohibited investments by the Florida State Board of Administration (SBA); Companies that Boycott Israel (F.S. 215.4725).

Monthly net realized losses are limited to a maximum of 75% of a Manager’s income unless approved by the Treasury.

## **MAXIMUM DURATION**

The account’s effective duration must be less than three (3) years.

## **REQUESTS FOR CONSENT, NO OPT-OUT PROVISIONS**

Managers are not permitted, under any circumstances, to include an Opt-Out clause, wherein consent is deemed to be granted if no response is provided within a designated time frame, when requesting Treasury’s consent to any change. Managers requesting Treasury’s consent to any modification or change to the Investment Manager Agreement (i.e., Consent to Assignment), operational activities or any related matter (i.e., cross trading, etc.) must obtain written approval before consent is deemed granted.

## **MONTHLY COMPLIANCE CERTIFICATION**

Managers will be required to provide to Treasury a signed monthly certification that:

- All assets held in their account are either in compliance with applicable Florida Statutes and this Investment Policy, or have been approved for Basket Clause status, or are in the process of review for Basket Clause consideration with the Investment Work Group,

- No securities issued by the entities on the list of “Scrutinized Companies”, as provided by Protecting Florida’s Investments Act (PFIA), are held in the portfolio.

## **EVALUATION**

The investment performance of the individual Asset-Backed Securities Managers will be evaluated by comparison with the ICE BofA AAA Asset-Backed Securities Index on a total return basis and against the other managers in the Program. Treasury will incorporate risk measures as deemed appropriate in the evaluation process comparing Program managers to their peers, as well as managers in comparable fixed income universes.

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**Article XXXIII**  
**Investment Policy for Time Deposits Program**

**OBJECTIVES**

The Treasury places funds in Time Deposits in Florida Qualified Public Depositories as established in Chapter 280, Florida Statutes.

**PROGRAM GOAL**

The goal of the program will be to maintain 5% of the Investment Pool balance (market value) with Qualified Public Depositories.

**MATURITIES**

Time Deposits can be purchased for maturity periods of 1 year to 5 years.

**RATES**

Time Deposits will be purchased at an interest rate of at least 105% of the prevailing rate for United States Treasury securities with a corresponding maturity at the time of purchase.

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**Article XXXIV**  
**Investment Policy for the Passive Account**

The Passive account invests in securities that are held to maturity and is not actively managed.

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**Section 5**  
**APPROVAL**

**Article XXXV**  
**Director of the Division of Treasury Approval**

*This Comprehensive Investment Policy has been reviewed and recommended for approval by the Investment Work Group and Treasury Investment Council and approved by the Director of the Division of Treasury.*

**APPROVED:** 

Tanner Collins,  
Director of the Division of Treasury

**DATE:** 8/2/24

**Section 6**  
**APPENDICES**

## **Appendix A**

### **Section 17.57, Florida Statutes**

17.57 Deposits and investments of state money.—

(1) The Chief Financial Officer, or other parties with the permission of the Chief Financial Officer, shall deposit the money of the state or any money in the State Treasury in such qualified public depositories of the state as will offer satisfactory collateral security for such deposits, pursuant to chapter 280. It is the duty of the Chief Financial Officer, consistent with the cash requirements of the state, to keep such money fully invested or deposited as provided herein in order that the state may realize maximum earnings and benefits.

(2) The Chief Financial Officer shall make funds available to meet the disbursement needs of the state. Funds which are not needed for this purpose shall be placed in qualified public depositories that will pay rates established by the Chief Financial Officer at levels not less than the prevailing rate for United States Treasury securities with a corresponding maturity. In the event money is available for interest-bearing time deposits or savings accounts as provided herein and qualified public depositories are unwilling to accept such money and pay thereon the rates established above, then such money which qualified public depositories are unwilling to accept shall be invested in:

- (a) Direct United States Treasury obligations.
- (b) Obligations of the Federal Farm Credit Banks.
- (c) Obligations of the Federal Home Loan Bank and its district banks.
- (d) Obligations of the Federal Home Loan Mortgage Corporation, including participation certificates.
- (e) Obligations guaranteed by the Government National Mortgage Association.
- (f) Obligations of the Federal National Mortgage Association.
- (g) Commercial paper of prime quality of the highest letter and numerical rating as provided for by at least one nationally recognized rating service.
- (h) Time drafts or bills of exchange drawn on and accepted by a commercial bank, otherwise known as “bankers acceptances,” which are accepted by a member bank of the Federal Reserve System having total deposits of not less than \$400 million or which are accepted by a commercial bank which is not a member of the Federal Reserve System with deposits of not less than \$400 million and which is licensed by a state government or the Federal Government, and whose senior debt issues are rated in one of the two highest rating categories by a nationally recognized rating service and which are held in custody by a domestic bank which is a member of the Federal Reserve System.
- (i) Corporate obligations or corporate master notes of any corporation within the United States, if the long-term obligations of such corporation are rated by at least two nationally recognized rating services in any one of the four highest classifications. However, if such obligations are rated by only one nationally recognized rating service, then the obligations shall be rated in any one of the two highest classifications.
- (j) Obligations of the Student Loan Marketing Association.

- (k) Obligations of the Resolution Funding Corporation.
- (l) Mortgage-backed securities of the highest credit quality.
- (m) Asset-backed securities rated by at least two nationally recognized rating services in any one of the three highest classifications. However, if such obligations are rated by only one nationally recognized rating service, the obligations must be rated in any one of the two highest classifications.
- (n) Any obligations not previously listed which are guaranteed as to principal and interest by the full faith and credit of the United States Government or are obligations of United States agencies or instrumentalities which are rated in the highest category by a nationally recognized rating service.
- (o) Commingled no-load investment funds or no-load mutual funds in which all securities held by the funds are authorized in this subsection.
- (p) Money market mutual funds as defined and regulated by the Securities and Exchange Commission.
- (q) Obligations of state and local governments rated in any of the four highest classifications by at least two nationally recognized rating services. However, if such obligations are rated by only one nationally recognized rating service, then the obligations shall be rated in any one of the two highest classifications.
- (r) Covered put and call options on investment instruments authorized in this subsection for the purpose of hedging transactions by investment managers to mitigate risk or to facilitate portfolio management.
- (s) Negotiable certificates of deposit issued by financial institutions whose long-term debt is rated in one of the three highest categories by at least two nationally recognized rating services, the investment in which shall not be prohibited by any provision of chapter 280.
- (t) Foreign bonds denominated in United States dollars and registered with the Securities and Exchange Commission for sale in the United States, if the long-term obligations of such issuers are rated by at least two nationally recognized rating services in any one of the four highest classifications. However, if such obligations are rated by only one nationally recognized rating service, the obligations shall be rated in any one of the two highest classifications.
- (u) Convertible debt obligations of any corporation domiciled within the United States, if the convertible debt issue is rated by at least two nationally recognized rating services in any one of the four highest classifications. However, if such obligations are rated by only one nationally recognized rating service, then the obligations shall be rated in any one of the two highest classifications.
- (v) Securities not otherwise described in this subsection. However, not more than 3 percent of the funds under the control of the Chief Financial Officer shall be invested in securities described in this paragraph.
- (w) Derivatives of investment instruments authorized in paragraphs (a)-(v).
- (x) Futures and options on futures, provided the instruments for such purpose are traded on a securities exchange or board of trade regulated by the Securities and Exchange Commission or the Commodity Futures Trading Commission.

These investments may be in varying maturities and may be in book-entry form. Investments made pursuant to this subsection may be under repurchase agreement or reverse repurchase agreement. The Chief Financial Officer may hire registered investment advisers and other consultants to assist in investment management and to pay fees directly from investment earnings. Investment securities, proprietary investment services related to contracts, performance evaluation services, investment-related equipment or software used directly to assist investment trading or investment accounting operations including bond calculators, Telerate, Bloomberg, special program calculators, intercom systems, and software used in accounting, communications, and trading, and advisory and consulting contracts made under this section are exempt from the provisions of chapter 287.

(3) In the event the financial institutions in the state do not make sufficient loan funds available for a residential conservation program pursuant to any plan approved by the Florida Public Service Commission under the Florida Energy Efficiency and Conservation Act, the board may authorize the investment of state funds, except retirement trust funds, in such a loan program at rates not less than prevailing United States Treasury bill rates. However, prior to investment of such funds, the Florida Public Service Commission shall develop a plan which must be approved by the Legislature before implementation.

(4) All earnings on any investments made pursuant to this section are hereby appropriated to the General Revenue Fund, except that earnings attributable to moneys made available pursuant to s. [17.61](#)(3)(a) and (b) shall be credited pro rata to the funds from which such moneys were made available.

(5) The fact that a municipal officer or a state officer, including an officer of any municipal or state agency, board, bureau, commission, institution, or department, is a stockholder or an officer or director of a bank or savings and loan association will not bar such bank or savings and loan association from being a depository of funds coming under the jurisdiction of any such municipal officer or state officer if it shall appear in the records of the municipal or state office that the governing body of such municipality or state agency has investigated and determined that such municipal or state officer is not favoring such banks or savings and loan associations over other qualified banks or savings and loan associations.

(6) The Chief Financial Officer is designated the cash management officer for the state and is charged with the coordination and supervision of procedures providing for the efficient handling of financial assets under the control of the State Treasury and each of the various state agencies, and of the judicial branch, as defined in s. [216.011](#). This responsibility shall include the supervision and approval of all banking relationships. Pursuant to this responsibility, the Chief Financial Officer may obtain information from financial institutions regarding depository accounts maintained by any agency or institution of the State of Florida.

(7) In addition to the deposits authorized under this section and notwithstanding any other provisions of law, funds that are not needed to meet the disbursement needs of the state may be deposited by the Chief Financial Officer in accordance with the following conditions:

(a) The funds are initially deposited in a qualified public depository, as defined in s. [280.02](#), selected by the Chief Financial Officer.

- (b) The selected depository arranges for depositing the funds in financial deposit instruments insured by the Federal Deposit Insurance Corporation in one or more federally insured banks or savings and loan associations, wherever located, for the account of the state.
- (c) The full amount of the principal and accrued interest of each financial deposit instrument is insured by the Federal Deposit Insurance Corporation.
- (d) The selected depository acts as custodian for the state with respect to each financial deposit instrument issued for its account.

History.—s. 1, Ch. 4586, 1897; GS 132; s. 1, Ch. 7929, 1919; RGS 143; CGL 173; s. 1, Ch. 17712, 1937; s. 1, Ch. 23976, 1947; s. 1, Ch. 57-354; s. 1, Ch. 63-114; ss. 28, 35, Ch. 69-106; s. 1, Ch. 71-104; s. 1, Ch. 77-155; s. 1, Ch. 78-110; s. 7, Ch. 80-65; s. 1, Ch. 80-103; s. 55, Ch. 80-257; s. 1, Ch. 81-285; s. 1, Ch. 81-295; s. 2, Ch. 83-122; s. 1, Ch. 85-138; s. 1, Ch. 87-331; s. 8, Ch. 88-374; s. 1, Ch. 89-287; s. 1, Ch. 90-357; s. 8, Ch. 91-244; s. 1, Ch. 92-87; s. 5, Ch. 92-142; s. 1, Ch. 93-75; s. 1, Ch. 94-166; s. 1, Ch. 96-177; s. 1, Ch. 98-409; ss. 64, 65, Ch. 2002-402; ss. 55, 56, Ch. 2003-261; s. 3, Ch. 2003-400; s. 3, Ch. 2004-390; s. 1, Ch. 2005-126; s. 3, Ch. 2006-122; ss. 1, 2, Ch. 2009-70; s. 1, Ch. 2009-140.

Note.—Former s. 18.10.



**Appendix B**  
**Section 17.575, Florida Statutes**

17.575 Administration of funds; Treasury Investment Council.—

- (1) There is created a Treasury Investment Council within the Division of Treasury consisting of at least five members, at least three of whom are professionals from the private sector, who must possess special knowledge, experience, and familiarity in finance, investments, or accounting. The members of the council must be appointed by and serve at the pleasure of the Chief Financial Officer. Each member shall serve a term of 4 years from the date of appointment. The council shall annually elect a chair and vice chair from among its members.
- (2) The council shall review the investments required by s. 17.57; meet with staff of the Division of Treasury at least biannually; and provide recommendations to the Division of Treasury and the Chief Financial Officer regarding investment policy, strategy, and procedures.
- (3) Members of the council shall serve without additional compensation or honorarium, but may receive per diem and reimbursement for travel expenses as provided in s. 112.061.

History.—s. 3, Ch. 2009-70; s. 1, Ch. 2017-175.

## **Appendix C**

### **Section 17.61, Florida Statutes**

17.61 Chief Financial Officer; powers and duties in the investment of certain funds.—

(1) The Chief Financial Officer shall invest all general revenue funds and all the trust funds and all agency funds of each state agency, and of the judicial branch, as defined in s. [216.011](#), and may, upon request, invest funds of any board, association, or entity created by the State Constitution or by law, except for the funds required to be invested pursuant to ss. [215.44-215.53](#), by the procedure and in the authorized securities prescribed in s. [17.57](#); for this purpose, the Chief Financial Officer may open and maintain one or more demand and safekeeping accounts in any bank or savings association for the investment and reinvestment and the purchase, sale, and exchange of funds and securities in the accounts. Funds in such accounts used solely for investments and reinvestments shall be considered investment funds and not funds on deposit, and such funds shall be exempt from the provisions of chapter 280. In addition, the securities or investments purchased or held under the provisions of this section and s. [17.57](#) may be loaned to securities dealers and banks and may be registered by the Chief Financial Officer in the name of a third-party nominee in order to facilitate such loans, provided the loan is collateralized by cash or United States government securities having a market value of at least 100 percent of the market value of the securities loaned. The Chief Financial Officer shall keep a separate account, designated by name and number, of each fund. Individual transactions and totals of all investments, or the share belonging to each fund, shall be recorded in the accounts.

(2) By and with the consent and approval of any constitutional board, the judicial branch, or agency now having the constitutional power to make investments and in accordance with this section, the Chief Financial Officer may make purchases, sales, exchanges, investments, and reinvestments for and on behalf of any such board.

(3)(a) Except as otherwise provided in this subsection, it is the duty of each state agency, and of the judicial branch, now or hereafter charged with the administration of the funds referred to in subsection (1) to make such moneys available for investment as fully as is consistent with the cash requirements of the particular fund and to authorize investment of such moneys by the Chief Financial Officer.

(b) Monthly, and more often as circumstances require, such agency or judicial branch shall notify the Chief Financial Officer of the amount available for investment; and the moneys shall be invested by the Chief Financial Officer. Such notification shall include the name and number of the fund for which the investments are to be made and the life of the investment if the principal sum is to be required for meeting obligations. This subsection, however, shall not be construed to make available for investment any funds other than those referred to in subsection (1).

(c) Except as provided in this paragraph and except for moneys described in paragraph (d), the following agencies may not invest trust fund moneys as provided in this section, but shall retain such moneys in their

respective trust funds for investment, with interest appropriated to the General Revenue Fund, pursuant to s. [17.57](#):

1. The Agency for Health Care Administration, except for the Tobacco Settlement Trust Fund.
2. The Agency for Persons with Disabilities, except for:
  - a. The Federal Grants Trust Fund.
  - b. The Tobacco Settlement Trust Fund.
3. The Department of Children and Family Services, except for:
  - a. The Alcohol, Drug Abuse, and Mental Health Trust Fund.
  - b. The Social Services Block Grant Trust Fund.
  - c. The Tobacco Settlement Trust Fund.
  - d. The Working Capital Trust Fund.
4. The Department of Community Affairs, only for the Operating Trust Fund.
5. The Department of Corrections.
6. The Department of Elderly Affairs, except for:
  - a. The Federal Grants Trust Fund.
  - b. The Tobacco Settlement Trust Fund.
7. The Department of Health, except for:
  - a. The Federal Grants Trust Fund.
  - b. The Grants and Donations Trust Fund.
  - c. The Maternal and Child Health Block Grant Trust Fund.
  - d. The Tobacco Settlement Trust Fund.
8. The Department of Highway Safety and Motor Vehicles, only for the Security Deposits Trust Fund.
9. The Department of Juvenile Justice.
10. The Department of Law Enforcement.
11. The Department of Legal Affairs.
12. The Department of State, only for:
  - a. The Grants and Donations Trust Fund.
  - b. The Records Management Trust Fund.
13. The Executive Office of the Governor, only for:
  - a. The Economic Development Transportation Trust Fund.
  - b. The Economic Development Trust Fund.
14. The Florida Public Service Commission, only for the Florida Public Service Regulatory Trust Fund.
15. The Justice Administrative Commission.
16. The state courts system.

(d) Moneys in any trust funds of the agencies in paragraph (c) may be invested pursuant to the provisions of this section if:

1. Investment of such moneys and the retention of interest is required by federal programs or mandates;
2. Investment of such moneys and the retention of interest is required by bond covenants, indentures, or resolutions;
3. Such moneys are held by the state in a trustee capacity as an agent or fiduciary for individuals, private organizations, or other governmental units; or
4. The Executive Office of the Governor determines, after consultation with the Legislature pursuant to the procedures of s. [216.177](#), that federal matching funds or contributions or private grants to any trust fund would be lost to the state.

(4)(a) There is hereby created in the State Treasury the Treasury Administrative and Investment Trust Fund.

(b) The Chief Financial Officer shall make an annual assessment of 0.12 percent against the average daily balance of those moneys made available pursuant to this section and 0.2 percent against the average daily balance of those funds requiring investment in a separate account. The proceeds of this assessment shall be deposited in the Treasury Administrative and Investment Trust Fund.

(c) The moneys so received and deposited in the fund shall be used by the Chief Financial Officer to defray the expense of his or her office in the discharge of the administrative and investment powers and duties prescribed by this section and this chapter, including the maintaining of an office and necessary supplies therefor, essential equipment and other materials, salaries and expenses of required personnel, and all other legitimate expenses relating to the administrative and investment powers and duties imposed upon and charged to the Chief Financial Officer under this section and this chapter. The unencumbered balance in the trust fund at the close of each quarter shall not exceed \$750,000. Any funds in excess of this amount shall be transferred unallocated to the General Revenue Fund. However, fees received from deferred compensation participants pursuant to s. [112.215](#) shall not be transferred to the General Revenue Fund and shall be used to operate the deferred compensation program.

(5) The transfer of the powers, duties, and responsibilities of existing state agencies and of the judicial branch made by this section to the Chief Financial Officer shall include only the particular powers, duties, and responsibilities hereby transferred, and all other existing powers shall in no way be affected by this section.

History.—s. 4, Ch. 81-295; s. 5, Ch. 84-137; s. 2, Ch. 87-331; s. 2, Ch. 89-549; s. 4, Ch. 90-357; s. 4, Ch. 92-87; s. 6, Ch. 92-142; s. 2, Ch. 94-166; s. 1313, Ch. 95-147; s. 1, Ch. 96-216; s. 1, Ch. 99-159; ss. 66, 67, Ch. 2002-402; ss. 60, 61, Ch. 2003-261; s. 4, Ch. 2003-400; s. 5, Ch. 2004-390; s. 69, Ch. 2006-227; s. 3, Ch. 2007-13; s. 3, Ch. 2008-16; s. 2, Ch. 2009-71.

Note.—Former s. 215.535; s. 18.125.

**Appendix D**  
**Department of Financial Services (DFS)**  
**Administrative Policies and Procedures**  
**Number 5-05**

**I. TITLE:**

Department of Financial Services Code of Ethics

**II. AUTHORITY AND REFERENCES:**

Florida Statutes: [Chapter 112, Part III](#)

Florida Administrative Code: [Chapters 60L-36.003](#)

**III. PURPOSE:**

All employees of the Department of Financial Services must adhere to the highest ethical standards. Acting ethically requires employees to do more than comply with the law. The Department of Financial Services (the “Department”) recognizes the importance of maintaining the highest ethical standards among its employees. The public expects its government officials to conduct the State’s business in an ethical, honest, and open manner. Employees are expected to know and comply with the Department’s Code of Ethics in addition to all state laws regarding ethics, including the statutory Code of Ethics found in [Chapter 112, Part III, Florida Statutes](#), and the provisions in the [Rule Chapter 60L-36.003, Florida Administrative Code](#).

**IV. DEFINITIONS:**

- A. "Business entity" means any corporation, partnership, limited partnership, proprietorship, firm, enterprise, franchise, association, self-employed individual, or trust, whether fictitiously named or not, doing business in this state.
- B. "Commission" means the Commission on Ethics created by [Section 112.320, Florida Statutes](#), or any successor to which its duties are transferred.
- C. “Committee of Continuous Existence” means any group, organization, association, or other such entity which is certified pursuant to the provisions of [Section 106.04, Florida Statutes](#), in making contributions to candidates, political committees, or political parties.
- D. “Conflict” or “conflict of interest” means a situation in which regard for a private interest tends to lead to disregard of a public duty or interest.
- E. “Department” means the Department of Financial Services.
- F. “Ethics Officer” means the General Counsel to the Chief Financial Officer (CFO) and is appointed to consult with Department employees on questions of ethics and compliance with the provisions of this policy.
- G. “Gift” means anything accepted by a person or on that person’s behalf, whether directly or indirectly, for that person’s benefit, and for which no payment is made in advance. A “gift” can include the following:
  - 1. Real property.
  - 2. The use of real property.
  - 3. Tangible or intangible personal property.

4. The use of tangible or intangible personal property.
  5. A preferential rate or terms on a debt, loan, goods, or services, which rate is below the customary rate and is not either a government rate available to all other similarly situated government employees or officials or a rate which is available to similarly situated members of the public by virtue of occupation, affiliation, age, religion, sex, or national origin.
  6. Forgiveness of indebtedness.
  7. Transportation, other than that provided to a public officer or employee by an agency in relation to officially approved governmental business, lodging, or parking.
  8. Food or beverage.
  9. Membership dues.
  10. Entrance fees, admission fees, or tickets to events, performances, or facilities.
  11. Plants, flowers, or floral arrangements.
  12. Services provided by persons pursuant to a professional license or certificate.
  13. Other personal services for which a fee is normally charged by the person providing the services.
  14. Any other similar service or thing having an attributable value not already provided for in this section.
- F. “Lobbyist” means any person who, for salary, fee, or other compensation, seeks, or sought during the preceding 12 months, to influence the governmental decision-making of a reporting individual or procurement employee or his or her agency or seeks, or sought during the preceding 12 months, to encourage the passage, defeat, or modification of any proposal or recommendation by the reporting individual or procurement employee or his or her agency.
- G. “Political Committee” means any two or more individuals, or a person other than an individual, that, in an aggregate amount in excess of \$500 during a single calendar year:
1. accepts contributions for the purposes of making contributions to any candidate, political committee, committee of continuous existence, or political party;
  2. accepts contributions for the purpose of expressly advocating the election or defeat of a candidate or the passage or defeat of an issue;
  3. makes expenditures that expressly advocate the election or defeat of a candidate or the passage or defeat of an issue; or
  4. makes contributions to a common fund, other than a joint checking account between spouses, from which contributions are made to any candidate, political committee, committee of continuous existence, or political party.
- H. “Relative” means an individual who is related to a public officer or employee as father, mother, son, daughter, brother, sister, uncle, aunt, first cousin, nephew, niece, husband, wife, father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, stepfather, stepmother, stepson, stepdaughter, stepbrother, stepsister, half-brother, half-sister, grandparent, great grandparent, grandchild, great grandchild, step grandparent, step great grandparent, step grandchild, step great grandchild, person who is engaged to be married to the public officer or employee or who otherwise holds himself out as or is generally known as the person whom the public officer or employee intends to form a household, or any other natural person having the same legal residence as the public officer or employee.
- I. “State Building” means any building owned or leased by the state in which state business is conducted.

## V. ETHICAL GUIDELINES:

### A. General Principles

1. Every employee of the Department is expected to treat colleagues and members of the public with courtesy and respect.
2. Department employees shall ensure that all disclosures made in accordance with the Code of Ethics laws are truthful, fair and accurate. Employees shall record information honestly, completely and accurately.

### B. Conflict of Interest

1. A Department employee shall not maintain a personal or financial interest in a matter pending before the Department. Circumstances that do not constitute a conflict of interest are limited to:
  - (a) An employee seeking a license of some type with the Department.
  - (b) An employee who has filed a consumer complaint with the Department.
  - (c) An employee who has filed a claim for unclaimed property.
2. An employee shall, within twenty-four (24) hours of knowledge of a matter, notify his or her supervisor if an employee's relative, or a business in which the employee's relative retains a financial interest, has regulatory or contractual business pending before the Department. Circumstances that do not constitute a conflict of interest are limited to:
  - (a) A relative seeking a license of some type with the Department.
  - (b) A relative who has filed a consumer complaint with the Department.
  - (c) A relative who has filed a claim for unclaimed property.
3. A Department employee shall not maintain employment or a contractual relationship with any business entity or any agency which is regulated by the Department, or is doing business with the Department, except that the employee may purchase goods or services from a business entity which is subject to the regulation of the Department if the price and terms of the transaction are available to members of the general public.
4. A Department employee shall not maintain any employment or contractual relationship that will create a conflict between the employee's private interests and the performance of his or her public duties.
5. If a Department employee applies for or is offered employment, the employee shall within three (3) days notify his or her supervisor of the employment application or job offer. If a Department employee is seeking or upon an entity offering any contractual relationship with an entity regulated by or doing business with the Department, the employee shall, prior to the seeking of the contractual relationship, or within three (3) days upon an entity offering the contractual relationship, notify his or her supervisor.

### C. Abuse of Position of Public Trust

1. Department employees shall not use their official position, or the powers of their office, to benefit their own personal interests. This provision will be interpreted broadly to ensure that employees will not abuse the powers of their office for their own personal interests or gain. Examples of prohibited conduct are:
  - a. Accepting a discount on goods or services (not provided to the general public) from a vendor doing business with the Department.
  - b. Using a Department vehicle for personal purposes, except as may be permitted for law enforcement personnel.
  - c. Asking a vendor or contractor doing business with the Department to hire an employee's spouse, child, or other family member.

- d. Using Department facilities, equipment, resources for political campaigns, or other political purposes.

#### D. Charitable Fundraising

1. The Department encourages employees to volunteer their personal time and resources to benefit not-for-profit charities and organizations. Department employees shall not solicit contributions to charitable entities from individuals or entities which are regulated by or do business with the Department. Such fundraising would be a violation of Section C of this Code of Ethics. Department employees may participate in the Florida State Employees Charitable Campaign

(FSECC) during normal business hours to the extent authorized by the CFO. Pursuant to [Section 110.181 \(1\) \(a\), F.S.](#), FSECC is the only authorized charitable fundraising drive directed toward state employees within work areas during work hours. Division Directors, in consultation with the Ethics Officer, must approve solicitations related to charitable fundraising in the workplace.

#### E. Political Campaigns and Fundraising

1. Department employees have the right to participate in political campaigns during their personal time. Employees who participate in political campaigns or political activities during normal business hours should do so only when they have received prior approval to take annual leave. Employees are permitted to express their opinions on political subjects and candidates, take an active part in political campaigns outside of working hours, including the wearing of badges or buttons, and displaying bumper stickers and posters.
2. A Department employee who qualifies as a political candidate must notify the Chief of Human Resource Management and his immediate supervisor of his or her candidacy within three (3) days upon qualification.
3. No employee is permitted to make, solicit, or accept contributions for any political campaign in a state building. If a person attempts to deliver a contribution in a state building, the contribution should be refused and the person tendering the contribution should be informed that it is illegal to accept a contribution in a state building. The employee should also notify the Inspector General of the incident. Contributions received by mail at a state building must be returned to the sender.

#### F. Disclosure of Information Exempt from Public Release

1. Department employees may be privy to information which is exempt from public disclosure under Florida's public records law. Employees are prohibited from disclosing this information or using it for their own personal benefit.

#### G. Restrictions Upon Leaving the Department

1. A Senior Management Service (SMS) or Selected Exempt Service (SES) employee cannot personally represent another person or entity for compensation before the Department for a period of two (2) years following termination or retirement.
2. A former employee is prohibited from having any employment or contractual relationship for two (2) years with any business entity (other than a public agency) in connection with a contract for services which was within his or her responsibility while serving as a Department employee.

#### H. Restrictions Regarding Relatives

1. Employees with knowledge of applicants who possess characteristics particularly suitable to vacancies in the Department should feel welcome to refer those applicants to the Chief of Human Resource Management. However, employees are prohibited from influencing the hiring of relatives for positions within the Department by directly contacting the hiring manager. Anytime



an employee recommends a relative for a position within the Department, the employee should first consult with the Department's Ethics Officer prior to making the recommendation.

2. An employee may not appoint, employ, promote, or advance for appointment, employment, promotion, or advancement, in or to a position, over which the employee exercises jurisdiction or control, any individual who is a relative of the employee.
3. Employees shall not procure contractual services for the Department from a business in which a relative is an officer, partner, director or owner.

I. Disclosure Requirements

1. Florida law requires certain employees to file a full and public disclosure of their financial interests with the Florida Commission on Ethics. This disclosure is designed to assure the public that employees' decisions are made impartially and in the public interest, and not for personal gain. Employees shall review and follow the applicable financial disclosure requirements found in [Section 112.3145, Florida Statutes](#).

J. The Receipt and Reporting of Gifts

1. The gift restrictions in this Code apply broadly to all Department employees.
2. An employee is prohibited from soliciting any gift from a political committee or committee of continuous existence, from a vendor doing business with the employee's agency, from a lobbyist who lobbies the Department, from the partner, firm, employer or principal of such lobbyist, or from a person or entity doing business with the Department.
3. An employee is prohibited from accepting any gift, directly or indirectly, from a political committee or committee of continuous existence, from a vendor doing business with the employee's agency, from a lobbyist who lobbies the Department, from the partner, firm, employer, or principal of such lobbyist, or from a person or entity doing business with the Department, unless the following limited exceptions apply:
  - (a) Gifts can be accepted from relatives, unless the relative is a lobbyist or a principal of a lobbyist, in which case the general prohibition on receipt of gifts from lobbyists applies. Employees who are married to or involved in a personal relationship with a lobbyist or the principal of a lobbyist shall consult with the Department's Ethics Officer on how to address this situation.
  - (b) Gifts can be accepted from personal friends in the ordinary course of friendship, provided that the friend is not:
    - (i) a lobbyist; or
    - (ii) a partner, firm, member, employer, employee or principal of a lobbyist; or
    - (iii) a person having a regulatory or contractual interest (either individually or through a corporation or organization) in a matter pending before the Department; or
    - (iv) a person who (either individually or through a corporation or organization) provides goods or services to the Department under contract or agreement; or
    - (v) a person (either individually or through a corporation or organization) seeking such business from the Department.
  - (c) On-site consumption of food or refreshment at receptions and/or other events (even if valued at over \$25.00) is permissible provided that the employee's attendance at such event is an appropriate exercise of the employee's official duties. The consumption of food or refreshment at such events, that is provided by or paid for by a lobbyist, principal of a lobbyist, a vendor doing business or seeking to do business with the Department, or an entity regulated

- by the Department is prohibited. However, if the reception and/or event is part of a sponsored conference, meeting, or other function for which the Department has paid a registration fee or cost for the employee's attendance, and the registration fee or cost includes food or refreshment as part of the printed agenda or other registration materials, the food or refreshment is not a gift and is therefore allowable for on-site consumption.
4. If an employee receives an unsolicited gift which is prohibited under this Code of Ethics, the employee should notify his supervisor and return the gift to the sender. If an employee receives a perishable gift, such as a fruit basket, the employee should donate the gift to a charitable organization. The employee should then write the donor and explain that while appreciated, Department employees are prohibited from receiving gifts under this Code of Ethics.
  5. An employee is prohibited from soliciting or knowingly accepting an honorarium from a political committee or committee of continuous existence, from a vendor doing business with the employee's agency, from a lobbyist who lobbies the employee's agency, or from the employer, principal, partner, or firm of such a lobbyist.
- K. If an employee has any questions regarding this Code of Ethics or needs practical advice regarding the ethics of a particular situation, the Ethics Officer to the Department is available to discuss these concerns.

**Appendix E**  
**Department of Financial Services (DFS)**  
**Administrative Policies and Procedures**  
**Number 1-02**

**I. TITLE**

Internal Controls Policy

**II. AUTHORITY**

Florida Statutes: [Section 215.86](#) Management Systems and Controls

**III. PURPOSE**

The mission of the Department is: to safeguard the people of Florida and the state's assets through financial accountability, education, advocacy, fire safety, and enforcement.

The objective of this internal controls policy is to enhance the integrity of government operations, provide reasonable oversight of Department operations, ensure State funds and resources are used efficiently and effectively, and give reasonable assurance that State assets and resources are appropriately protected and managed. This policy shall apply to all Department of Financial Services (DFS) employees.

**IV. STATEMENT OF POLICY**

[Section 215.86, Florida Statutes](#), outlines each agency's responsibility for management and system controls. The Section states:

“Each state agency and the judicial branch as defined in [Section 216.011, F.S.](#), shall establish and maintain management systems and controls that promote and encourage compliance; economic, efficient, and effective operations; reliability of records and reports; and safeguarding of assets. Accounting systems and procedures shall be designed to fulfill the requirements of generally accepted accounting principles.”

In accordance with this Section, the Department, among its Divisions, shall establish and maintain a system of internal controls. Internal controls are those management driven practices and procedures designed to provide reasonable assurance that objectives are achieved. As used in this policy, the terms *management controls* and *internal controls* are meant to be interchangeable.

It is imperative that the Department's systems of internal controls properly safeguard confidential information, whether that information exists in electronic or paper format. The following is a list of generally considered examples of confidential information:

1. Social Security numbers.
2. Bank account numbers.
3. Credit card numbers.
4. Certain financial records.
5. Risk Management claim files.
6. Certain emergency orders.
7. Investigations of active agents, adjusters, and other insurance representatives.

8. Records of active fraud investigations.
9. Health or medical information.
10. Trade secret or intellectual property.
11. Certificate or license numbers.
12. Certain information of active or former law enforcement personnel, judges, state attorneys, etc. and their spouses and children as defined by statute.
13. Whistle-blower investigations until published and the identity of persons designated as Whistle-blowers permanently.
14. Complaints of sexual harassment or other acts of unlawful discrimination and associated records while investigation of the complaint is active.
15. Risk analysis information relative to security threats to data, information, and information technology resources.
16. Results of internal audits and evaluations of the security program for an agency's data and information technology resources.
17. A complaint filed against a law enforcement officer and all information obtained pursuant to the investigation of such complaint until the investigation ceases to be active.
18. Agency records reflecting participation in the Employee Assistance Program.

For a complete source of types of confidential information, consult Appendix D of Florida's [Government-in-the-Sunshine Manual](#).

## V. DEFINITIONS

**Business Process:** The activities that produce outputs, which contribute towards the achievement of the Department's mission. Each business process converts inputs to quantifiable outputs in order to achieve a defined objective. Direct business processes produce outputs that directly benefit Florida's citizens and businesses, as well as other government entities. Indirect business processes produce outputs that contribute to the accomplishment of direct business processes.

**Business Process Owner:** The person/position responsible for achievement of the business process objective(s). The business process owner has the authority to direct, change, allocate resource levels, and set the manner in which the process is managed.

**Check Digits:** A digit derived from and added to the other digits in a sequence, used to ensure that the sequence is correct.

**Compliance Objective:** The certification or confirmation process that meets the requirements of accepted practices, legislation, prescribed rules and regulations, specified standards, or the terms of a contract.

**Confidential Information:** Information that is exempted from disclosure requirements under the provisions of applicable state or federal law, e.g., the Florida Public Records Act.

**Delegation of Authority:** The formal conveyance of authority from one Department employee to another, which specifies for each area and each transaction type the individual(s) who are authorized to approve transactions for business and compliance purposes.

**Event:** An incident or occurrence, arising from internal or external sources, which affects achievement of objectives.

**Executive Leadership:** Collectively, the Chief Financial Officer, the Chief of Staff, the Deputy Chief Financial Officers, and the Deputy Chief of Staff.

**Inherent Risk:** The risk existing before management takes action to alter the risk's likelihood or impact.

**Internal Controls:** A system of control activities designed to provide reasonable assurance regarding the achievement of objectives within acceptable levels of risk.

**Objective:** The goal of a business process. Objectives can be categorized as Compliance Objectives, Reporting Objectives, Operational Objectives, and Safeguarding Objectives.

**Operational Objective:** Established standards of efficiency for achievement of process objectives.

**Physical Safeguard:** The measure(s) taken to prevent loss through the use of locks, burglar proofing, guards, etc., that prevent disaster through access controls, alarms, fireproof vaults, fire-suppression (sprinkler) systems, power backups, etc.

**Reasonable Assurance:** Acknowledgment that it is not possible to assert, with certainty, that an event will or will not occur.

**Reconciliation:** The item by item examination of two related sets of figures obtained from different sources.

**Reporting Objective:** The objective that all information reported on a process is valid and reliable.

**Residual Risk:** The remaining risk after management has taken action to alter the risk's likelihood or impact.

**Risk:** The possibility that an event will occur that adversely affects the achievement of objectives.

**Risk Event:** An incident or occurrence emanating from internal or external sources that affects implementation of strategy or achievement of objectives.

**Risk Tolerance:** The acceptable levels of variation relative to the achievement of objectives.

**Safeguarding Objective:** The objective of ensuring that assets are protected from loss or fraudulent activity.

**Segregation of Duties:** A control activity that prevents a single employee from performing and concealing an irregular transaction or event in the normal course of the employee's duties. Examples include:

- Duties for authorizing payment information, inputting new transactions, and verifying the accuracy of the transactions are functionally segregated.

- Software developers can have access to development and/or test data, but they should not have access to production data.

## VI. INTERNAL CONTROLS OVERVIEW

Internal controls shall be applied to any process performed within the Department to ensure that the objectives of the business process are achieved within the acceptable level of risk. Internal controls provide assurance that potential risk events are prevented to the maximum extent possible. Properly designed, an internal control should provide more benefit than it costs. Risks events that may adversely impact achievement of objectives include but are not limited to:

- Loss or impairment of assets.
- Fraud upon the state.
- Misrepresentation of data.
- Failure to accomplish statutory requirements.
- Adverse publicity.
- Losing taxpayer trust.

Business process owners should consider the following five components when developing the system of internal controls for their business processes:

- Control Environment:** This is the demonstrated competence, attention, and integrity of the people in the organization. The way people perform their work is a product of the organization's governance approach, organizational structure, management's philosophy, and ethical values.
- Risk Assessment:** This involves identification and analysis of risks relevant to the achievement of the organization's objectives and forming a plan for determining how the risks should be managed. In considering its response, management should assess the effect on the risk likelihood and impact, as well as costs and benefits, selecting a response that brings residual risk within acceptable risk tolerances.
- Control Activities:** These are the policies, procedures, and techniques used to enforce management directives and ensure that actions are taken to properly address risks.
- Monitoring:** The system of internal controls is reviewed by management through monitoring. Monitoring tools and practices help ensure that internal controls are utilized and effective. These tools and practices should be adjusted or enhanced over time to remain sufficient for the current state of risks.
- Information and Communication:** This component provides the means by which the results of control and monitoring activities are recorded, organized, and applied in managing the process.

The following describes types of control activities utilized to ensure successful achievement of each process objective.

- Preventive controls are used to reduce the likelihood that an adverse risk event will occur. Examples include: segregation of incompatible duties, system access controls, required authorizations, physical safeguards, check digits, and repetitive data entry.
- Directive controls cause or encourage achievement of a process objective. Examples include: policies, training programs, performance standards, and compensation incentives.

- C. Detective controls reveal or detect undesirable events. Examples include: output reviews, reconciliations, exception reports, physical inventory, and audits.
- D. Mitigating or Compensating controls at least partially make up for a missing, excessively costly, or impractical control. Examples include: monitoring performance variances or budgets instead of individual transactions; delegation of authority to a subordinate to keep a process functioning when the responsible person is absent; temporarily adopting substitute controls when preferable controls are not available (as may exist during disaster recovery); and obtaining insurance or bonding.

The determination of the appropriate combination of controls is based on the nature of the risk and the costs to implement the controls. Generally, preventive controls are preferred and more effective than detective controls alone because it may be less costly to prevent a problem than to identify and correct a problem that has already occurred. The absence of effective preventive controls increases the probability that adverse risk events may occur. Likewise, the absence of detective controls increases the probability that adverse risk events will not be exposed when they occur.

## **VII. ROLES & RESPONSIBILITIES**

- A. Executive leadership is responsible for:
  - 1. Delegating responsibility to business process owners for the accomplishment of each business process objective.
  - 2. Establishing an ongoing formal process to monitor achievement of business process objectives.
  - 3. Setting a tone of leadership that affects integrity, ethics, and other factors of a positive control environment.
  - 4. Ensuring that risks associated with each business process are identified, prioritized, and effectively managed by business process owners through the use of appropriate internal controls.
  - 5. Ensuring policies and procedures contribute to the achievement of the Department's mission.
  - 6. Approval of all business process policies.
  - 7. Following up on all tasks/directives issued to business process owners.
- B. Business process owners are responsible for:
  - 1. Developing policies that ensure achievement of business process objectives. Each policy shall:
    - a. Identify the business process owner.
    - b. Describe the process and its objectives.
    - c. Identify the regulatory authorities governing the process.
    - d. Identify risk events associated with the process.
    - e. Detail the controls used within the process to reduce inherent risks to acceptable levels.
    - f. Describe how the policy and the process' objectives support the Department's mission.
    - g. Identify metrics to monitor achievement of process objectives.
    - h. Identify roles and responsibilities for managing risk areas both inside and outside the process owner's organizational unit.
    - i. Mandate review of each policy at least every two years; to be performed more frequently if appropriate.
  - 2. Approving all business process procedures.
  - 3. Ensuring an on-going review and evaluation of business process risks, which include both opportunities as well as potential adverse events.
  - 4. Monitoring the operation and effectiveness of internal controls under their purview.
  - 5. Ensuring that effective controls are documented and implemented for each risk associated with their business process.

6. Ensuring that effective mitigating and compensating controls are in place when other controls cannot be cost-effectively implemented.
7. Ensuring employee training sufficiently provides adequate awareness and understanding of internal control standards to achieve the business process objectives.
8. Maintaining accurate position descriptions to properly define and assign controls necessary to ensure achievement of business process objectives.
9. Responding to concerns and suggestions raised by staff regarding the risks associated with achievement of business process objectives.
10. Responding to instances of staff's noncompliance with the system of internal controls, code of conduct, or any other policy violations or illegal activities.

C. Each employee is responsible for:

1. Knowing and following policies and procedures.
2. Identifying opportunities to increase the reliability and integrity of the Department's accounting and internal controls systems.
3. Notifying supervisors of problems and/or weaknesses in, and opportunities to enhance internal controls.
4. Notifying supervisors of instances of noncompliance with the system of internal controls or code of conduct and any other violations or illegal activities.

D. The Office of Inspector General is responsible for:

1. Conducting comprehensive compliance and performance audits of the agency and preparing audit reports of findings to ensure business processes are achieving objectives and contributing to the mission of the Department (as described in AP&P 6-03 Internal Audits).
2. Identifying risks and building a prioritized annual work plan to review the effectiveness of internal controls in achieving the organization's objectives.

## VIII. VIOLATIONS

Violations of this policy may result in disciplinary action in accordance with [DFS AP&P 5-26](#), Standards and Procedures of Discipline-Career Service Employees. Violations of this policy may also be reported to the Inspector General for investigation.

## IX. REFERENCES

The references listed below provide additional information about internal controls.

- [Section 20.055, F.S.](#) - Agency inspectors general.
- [Section 216.102, F.S.](#) - Filing of financial information; handling by Chief Financial Officer; penalty for noncompliance.
- [Chapter 60DD-2](#), Florida Administrative Code.
- Committee on Sponsoring Organizations of the Treadway Committee, *Internal Control – Integrated Framework*, <http://www.coso.org>.
- Maine Office of State Controller, *Internal Control Guide for Managers*, <http://www.maine.gov/osc/internalaudit/guideformanagers.htm>.
- American Institute of Certified Public Accountants, (AICPA) [Statement of Auditing Standards \(SAS\) No. 109: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement](#), March 2006, <http://www.aicpa.org/download/members/div/auditstd/AU-00314.PDF>.



- SAS No. 112: *Communicating Internal Control Related Matters Identified in an Audit*, May 2006, <http://www.aicpa.org/download/members/div/auditstd/AU-00325.PDF>.