

CITY OF OCALA TREASURY

STATEMENT OF INVESTMENT POLICY

I. INTRODUCTION

The following Investment Policy, adopted concurrently with the City's Investment Ordinance, 2321, adopted December 8, 1992, as amended on October 20, 2015, and is intended to set forth the framework within which the City's investment activities will be conducted. The Investment Policy establishes parameters for investment activity which may be further restricted by the Investment Committee.

In establishing this Investment Policy, the City Council recognizes the traditional relationship between risk and return, and acknowledges that all investments involve a variety of risks related to maturity, duration, credit, market, and other factors.

When choosing between alternative investments, staff and/or outside manager(s) should structure the portfolio based on an understanding of the variety of risks and the basic rule of diversification (imposed by this policy) on the structure of the portfolio. It is the position of the City that the interest of the citizens of the City of Ocala can best be served by prudent management of the City funds, through the assumption of an appropriate level of risk, with a primary objective of capital preservation and income. With adoption of this Investment Policy, the City recognizes the secondary goal of this management approach is to add economic value to a portfolio under circumstances prevailing from time to time. This may necessitate the sale of securities at a loss in order to reduce portfolio risk, without a material reduction in return, or to achieve a greater overall return, without assuming any material amount of additional risk.

The Investment Policy acknowledges that the City will consider using various pool or mutual fund products, to provide a core or passive base to the active portfolio. To enhance the effectiveness of the City staff in increasing the economic value of the investment portfolio, outside investment manager(s) may be hired and approved by separate City Council action.

II. SCOPE

This investment policy applies to the City of Ocala surplus funds, except Pension fund assets and funds whose uses are restricted by bond covenants.

III. INVESTMENT OBJECTIVES

The following investment objectives, in order of priority, will be applied in the management of the City's funds.

1. The primary objective of the City of Ocala investment activities is the preservation of capital and the protection of investment principal.

2. The City's investment portfolio and/or portfolio management strategy will provide sufficient liquidity to meet the City's operating and capital requirements to insure the orderly conduct of the City's business affairs.
3. In investing public funds, the City or outside investment manager(s) will strive to maximize the return on the portfolio, but will avoid assuming unreasonable investment risk; to control risks regarding specific security types, or individual financial institutions or specific maturity, the City will diversify its investments.

IV. INVESTMENT PERFORMANCE AND REPORTING

The City shall develop performance measures as are appropriate for the nature and size of the public funds within its custody.

Performance of the portfolio shall be reported, by appropriate Finance staff or Investment Consultant, at least quarterly and submitted to the Finance Director of the City of Ocala or designee. Reports shall include details of the characteristics of the portfolio as well as its performance for that period.

The Finance Director or designee and/or outside investment manager(s) shall, at least quarterly, prepare reports to the Investment Committee. These reports shall include securities in the portfolio by class or type, book value, income earned, market value and comparative data as of the report date. These reports shall be supplemented by reports provided by any outside investment manager(s) of the City. A report will also be submitted to the City Council on an annual basis. They will also be available to the public.

Material deviations from this Investment Policy Statement must be approved before implementation by the City Council. In the event of some type of financial emergency or crisis where material deviation from the Investment Policy Statement is warranted in the judgment of the Finance Director and/or an outside investment manager(s), then City Council must be notified as soon as possible as to what occurred and why.

SERVICE PROVIDER COMMUNICATIONS

1. Custodian

On a monthly basis, the custodian shall supply an accounting statement that will include a summary of all receipts and disbursements and the cost and the market value of all assets.

2. Investment Managers

On a quarterly basis, the investment managers shall provide a written report affirming compliance with the security restrictions of Section IV above and a summary of investment holdings diversification and attendant schedules. In addition, the investment managers shall deliver each quarter a report detailing the Plan's performance, adherence to the investment policy, forecast of the market and economy, portfolio analysis and current assets of the Plan. Written reports shall be delivered to the City within 30 days of the end of the quarter. A copy of the written report shall be submitted to the person designated by the City, the Consultant, and shall be available for public inspection.

3. The Investment Managers will provide immediate written and telephone notice to the Investment Committee's designated contact of any significant market related or non-market related event, specifically including, but not limited to, any deviation from the standards set forth in Section IV above, and securities when marked to market reflect a dollar decline in excess of \$50,000 and / or reflect a decline in value of 10% or greater calculated on a cost basis. The Investment Managers will disclose any securities that do not comply with section IV in each quarterly report.

4. Investment Manager Noncompliant Security

If the Plan owns investments at the end of a calendar quarter that complied with section IV at the time of purchase, which do not satisfy the applicable investment standard, then such investment shall be disposed of at the earliest economically feasible opportunity in accordance with the prudent man standard of care and no additional investment may be made. However an action plan outlining the disposition strategy shall be provided to the Investment Committee immediately.

5. Investment Consultant

The Investment Consultant shall provide monthly performance statements to appropriate staff of the Finance Department.

V. ETHICS

This Investment Policy and the related actions of staff will be guided by the standard of care expected of a "Prudent Person". The Prudent Person Rule requires that investments should be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment. The City deems that those employees authorized to conduct the City's investment activities will perform within the course and scope of their employment, and act prudently, without speculation and in the best interest of the City.

VI. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

The investment policy shall specify the authorized securities dealers, issuers and banks from whom the City may purchase securities. They shall be limited to "Primary Securities Dealers" as designated by the Federal Reserve Bank of New York and federal or state insured financial institutions who are Qualified State Public Depositories, for purchases and sales of securities. The City may also utilize non-primary securities dealers and brokers. The firms must have capital of no less than \$10,000,000. Both primary and non-primary dealers must qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). The firm and assigned broker must have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five years

Prior to executing investment trades for its own account, excluding transactions for cash flow purposes, the City will conduct appropriate due diligence to confirm that the security dealers being utilized meet the requirements as noted in this section. This process may include securing audited financial statements and other documentation deemed necessary.

VII. BID REQUIREMENTS

All transactions should be competitively bid with multiple dealers whenever possible.

VIII. AUTHORIZED INVESTMENTS

The Finance Director (with approval from the Assistant City Manager) or approved outside investment manager may purchase or sell investment securities, at prevailing market rates, an appropriate amount thereof in, and only in:

- a. The local Government Surplus Funds Trust Fund; or
- b. Negotiable direct obligations of, the United States Government. Non-negotiable interest bearing time certificates of deposits or savings accounts in institutions approved as Qualified Public Depositories under applicable law; or
- c. Negotiable interest bearing time certificates of deposits issued by institutions whose long-term debt is rated at least "BBB" or equivalent by Standard & Poor's or Moody's Rating Service; or
- d. Obligations of the Federal Farm Credit Banks, Federal Home Loan Bank, or its district banks, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, including Federal Home Loan Mortgage Corporation participation certificates, or obligations guaranteed by the Government National Mortgage Association, or FDIC; or
- e. Bankers Acceptances which are issued by foreign or domestic institutions whose long-term debt is rated at least "BBB" or equivalent by Standard & Poor's or Moody's; or
- f. Prime commercial paper. For the purpose of this section, "prime" commercial paper shall be defined as that commercial paper which has received a Standard & Poor's rating of at least "A-3" or a Moody's rating of "Prime 2"; or
- g. Repurchase agreements comprised of only those investment instruments as otherwise authorize herein, the selling institution must be approved by the Investment Committee and have entered into a Master Repurchase Agreement and all repurchase agreement transactions must adhere to the requirements of the Master Repurchase Agreement; or

- h. State and local government taxable and tax-exempt debt, General Obligation or Revenue bonds, rated at least “BBB” by Standard & Poor’s or Moody’s; or
- i. Corporate debt of Corporations whose debt is rated at least “BBB” or equivalent by Standards & Poor’s or Moody’s; or
- j. Collateralized Mortgage Obligations (CMOs) backed by an agency of the U.S. Government; or
- k. Mortgage and asset-backed securities rated “A” or equivalent by Standard & Poor’s or Moody’s; or
- l. Yankee securities, as permissible under Federal and State laws, rated at least “BBB” or equivalent by Standards & Poor’s or Moody’s; or
- m. Eurodollar securities, as permissible under Federal and State laws, rated at least “BBB” or equivalent by Standard & Poor’s or Moody’s; or
- n. Fixed income or money market mutual/trust funds comprised of only those investment instruments authorized herein; or
- o. Any investment security authorized by Florida Statute, S166.261 and 218.415; or Derivative securities, defined as a financial instrument the value of which depends on or is derived from the value of one or more underlying assets or index of asset values, shall be limited to those types previously authorized herein and only be utilized if the Finance Director has sufficient understanding/expertise to do so.

Securities or investments not expressly mentioned in this Policy must receive written approval from the City of Ocala Assistant City Manager overseeing the Finance Department.

Investments in Collateralized Mortgage Obligations (CMOs) shall be restricted to issues which meet all of the following criteria:

All issues must be backed by securities issued by the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), or the Federal National Mortgage Association (FNMA); all issues must pass the FFIEC High Risk Security Test at the time of purchase and on an annual basis. Any CMO issue held in the investment manager’s portfolio that fails the FFIEC test shall be sold at the earliest beneficial opportunity.

- 1. All ABS must be of a senior tranche
- 2. All issues must have a rating of AAA by a major rating agency
- 3. All issues must be of a defined coupon schedule

It should be recognized that certain securities may meet the above definition of Authorized Investment, but their performance risk as created by their structure, may be such that a prudent investor would deem them inappropriate investments. Securities of this type which are prohibited include:

1. Reverse repurchase agreements.
2. Floating rate securities whose coupon floats inversely to an index or whose coupon is determined based upon more than one index.
3. Tranches of Collateralized Mortgage Obligations (CMOs) with the following characteristics; received only the interest or principal from the underlying mortgage securities, commonly referred to as "IOs" and "POs".
4. Tranches of any Collateralized Debt Obligations including but not limited to ABS (asset backed securities), CMBS (commercial mortgage backed securities), CMO's, otherwise considered subordinate or support in the issue structure.
5. Securities registered under Rule 144a, otherwise private placement securities
6. Securities whose future coupon may be suspended because of the movement of interest rate or an index, or whose coupon is based upon more than one index.

The City of Ocala will not use leverage in its investment portfolio.

IX. INVESTMENT MATURITY AND LIQUIDITY

The term structure of the investment portfolio shall be structured in a manner consistent with expected liquidity requirements and liability terms. To achieve this end the portfolio shall be divided into three (3) liquidity pools defined as: Pool I (short), Pool II (short intermediate), and Pool III (intermediate). Funding allocations shall be determined by the City and be based on expected liquidity requirements for the funds. Unless matched to a specific cash-flow requirement, the City will not directly invest in securities with an effective maturity of more than ten (10) years from the date of purchase. It is expected the weighted average effective-maturity of the combined pools shall not exceed five (5) years. The minimum weighted average quality of the total investment portfolio shall be AA. This calculation excludes the maturities of the underlying securities of a repurchase agreement. This calculation also applies to the average life of securities (rather than the stated maturity). The effective duration shall not exceed 20% of the target benchmark years. Non-negotiable interest-bearing time certificates shall not exceed one (1) year and repurchase agreement transactions shall not exceed 60 days.

X. INVESTMENT COMMITTEE

The Finance Director will establish an Investment Committee for the purpose of formulating alternative investment strategies and short-range directions (within the guidelines herein set forth) and for monitoring the performance and structure of the City’s investment portfolio. Members of the Committee shall include the Finance Director of the City of Ocala as Chairman, the City Manager, a City Council member, a Budget staff member and a Finance staff member. This Committee may include other members as may be designated by the Finance Director from time to time.

A designee of the Finance Director and the outside investment manager(s) and consultant(s) will provide the Committee members with current market information, an updated portfolio and analysis, and various pertinent financial data. The Committee, or a quorum of the Committee, shall meet at least quarterly, or more often as deemed necessary, under the given conditions, to review, discuss and affirm or alter the then current investment strategy and perform other function as herein provided.

The Investment Committee activities shall include, but not be limited to, the review and setting of investment strategies and written investment procedures, and the review and approval of: outside investment managers and custodians, all authorized repurchase institutions and required agreements.

Members of the Investment Committee shall take 8 hours per year of continuing education or courses of study related to investment practices and products pursuant to F.S. 218.415.

XI. RISK AND DIVERSIFICATION

It is the policy of the City of Ocala to diversify its investment portfolio. Assets held shall be diversified to control the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, a specific instrument, a class of instruments, and a dealer through whom these instruments are bought and sold. Diversification strategies (within the established guidelines) shall be reviewed and revised periodically as necessary by the Investment Committee. Specifically, the Investment Manager(s) should observe the following diversification guidelines with respect to portfolio allocations:

	Sector Allocations		Individual Issue/Fund Limit
	Minimum	Maximum	
U.S. Treasury & Federal Agencies (non-MBS)	35%	None	None
Corporate Debt Obligations	None	50%	5%
Mortgage/Asset Backed Securities	None	30%	5%

Municipal Securities	None	20%	5%
Certificates of Deposit	None	20%	5%
Repurchase Agreements	None	25%	15%
Local Gov't Surplus Funds Trust Fund	None	25%	25%
Participation in collateral or otherwise collateralized debt instruments (Issuer Level)	None	20%	5%
Participation in collateral or otherwise collateralized debt instruments (Security Level)	NA	NA	5%
Money Market Mutual/Trust	None	30%	15%
Yankee and Eurodollar Securities	None	15%	3%

In order to provide for a diversified portfolio, the City may engage several Investment Management firms. The managers are responsible for the assets and allocation of their mandate only and may be provided an addendum to this policy with their specific performance objectives and investment criteria.

Allocation to each of the manager mandates will be based on the target percentages illustrated below. It is intended that the target percentages will be maintained within the stated ranges until such time as the Committee amends this investment policy.

	Target	Range
ML Unsub. Treas/Agency 1-3	30%	25%-35%
ML US Corp/Govt 1-5	40%	35%-45%
ML US Domestic Master 1-10	30%	25%-35%

To the extent that adequate re-balancing among asset categories cannot be affected via the allocation of contributions/distributions, the Committee may redirect monies from one manager to another, if necessary, to maintain the target ranges of this policy. However, the Committee recognizes that a rigid asset allocation would be both impractical and, to some extent, undesirable under various market conditions. Therefore, the allocation of the Investment Asset's total assets may vary from the allocation guidelines without being considered an exception to this investment policy

XII. BENCHMARK

In order to monitor the results of the City's investments under this policy statement, a dollar weighted Index shall be determined based on funding allocation targets to the three investment pools. Underlying benchmarks for the investment pools shall be: B of A Merrill Lynch 1-3 Year Unsubordinated U.S. Treasuries / Agencies Index, B of A Merrill Lynch 1-5 Year Gov. / Corporate Index, and the B of A Merrill Lynch 1-10 Year Domestic Master Index. Peer group universe comparisons, appropriate for the Fund mandate(s) shall be monitored but considered a secondary evaluation tool.

In order to provide for a diversified portfolio, the Investment Committee has engaged several Investment Management firms. The managers are responsible for the assets and allocation of their mandate only and may be provided an addendum to this policy with their specific performance objectives and investment criteria.

Furthermore, the effective duration of the investment portfolio(s) shall normally remain no shorter than 50% of the duration of this index, and no longer than 120% of the index.

This benchmark restriction must always be adhered to by any outside investment manager(s). Under certain circumstances, with approval of City Council and the Assistant City Manager, the Finance Director may deviate from the benchmark. On occasion, the Finance Director may need to make specific purchases or sales of securities to meet identifiable needs that may be outside the confines of the benchmark restrictions. If the Finance Director is buying and selling securities as part of the ongoing management of the portfolio, then the benchmark restrictions must be adhered to.

All other restrictions in this Investment Policy Statement must be followed by the Finance Director or any outside investment manager(s).

The City understands that large cash inflows or outflows can positively or negatively affect the portfolios' performance. It is possible that the City could unexpectedly need a substantial portion of the invested portfolio and that these needs could cause the performance of the portfolio to deviate substantially from the performance or the benchmark. Providing results at or above this benchmark is desired, but is secondary to meeting the liquidity needs of the City.

CRITERIA FOR INVESTMENT MANAGER REVIEW

The Investment Committee wishes to adopt standards by which judgments of the ongoing performance of a portfolio manager may be made. If, at any time, any three of the following is breached, the portfolio manager will be warned of the Investment Committee's serious concern for the Fund's continued safety and performance. If any five of these are violated the consultant will recommend a manager search for that mandate. Universe standards shall be considered as secondary criteria.

- Four (4) consecutive quarters of relative under-performance versus the benchmark.

- Three (3) year trailing return below the top 40th percentile within the appropriate peer group and under performance versus the benchmark.
- Five (5) year trailing return below the top 40th percentile and under performance versus the benchmark.
- Three (3) year downside volatility greater than the index (greater than 100), as measured by down market capture ratio.
- Five (5) year downside volatility greater than the index (greater than 100), as measured by down market capture ratio.
- Style consistency or purity drift from the mandate.
- Management turnover in portfolio team or senior management.
- Investment process change, including varying the index or benchmark.
- Failure to adhere to the IPS or other compliance issues.
- Investigation of the firm by the Securities and Exchange Commission (SEC).
- Significant asset flows into or out of the company.
- Merger or sale of firm.
- Fee increases outside of the competitive range.
- Servicing issues – key personnel stop servicing the account without proper notification.
- Failure to attain a 60% vote of confidence by the Investment Committee.

Nothing in this section shall limit or diminish the Investment Committee's right to terminate the manager at any time for any reason.

XIII. THIRD-PARTY CUSTODIAL AGREEMENTS

All securities purchased by the City or by a City-approved registered investment advisor under this section shall be properly designated as an asset of the City of Ocala and (except for those related to overnight repurchase agreements) held in safekeeping by a third party custodial bank or other third party custodial institution. If a bank or Trust Company serves in the capacity of investment manager(s), then said bank could also perform required custodial and reporting services. The only exception to this will be for overnight repurchase agreements whose underlying securities are held by the originating institutions. Those agreements shall have the following limitations:

- First, limited in aggregate to less than 5% of the value of the portfolio, at cost;
- Second, made with primary securities dealers or authorized depositories meeting such additional credit quality standards as established by the Investment Committee;

- Third, made only with those dealers and banks with which the City has executed a Master Repurchase Agreement.

No withdrawal of such securities, in whole or in part, shall be made from safekeeping except by the Finance Director as authorized herein, or by his respective designees.

The City will execute third party custodial agreement(s) with its bank(s) and depository institution(s). Such agreements may include letters of authority from the City, details as to responsibilities of each party, method of notification of security purchases, sales, delivery, and procedures related to repurchase agreements and wire transfers, safekeeping and transactions costs, procedures in case of wire failure or other unforeseen mishaps and describing the liability of each party.

INTERNAL CONTROLS

The Finance Director shall monitor the City's assets and ensure proper accounting and reporting of the transactions related thereto. The Internal Controls for the investment function shall be reviewed by the City's external auditor at least annually.

a. Delivery Versus Payment

All securities purchased or sold will be transferred when possible only under "delivery versus payment" (D.V.P.) method to insure that funds or securities are not released until all criteria relating to the specific transaction are met.

b. Trust Receipt and Confirmation

The Finance Director is authorized to accept, on the behalf of and in the name of the City of Ocala, bank trust receipts or confirmation in return for investment of temporarily idle funds as evidence of actual delivery of the obligations or securities. Any such trust receipt or confirmation shall fully describe the various obligations or securities held, together with the specific identification number of each obligation or security held, and that they are held for the City of Ocala. The actual obligations or securities, whether in book-entry or physical form, on which trust receipts or confirmations are issued may be held by a third party custodial bank and/or institution or a designated corresponding bank or custodian institution which has a correspondent relationship to the City's third party custodian or its designated correspondent institution, who is acting on behalf of and under the same obligations as the City's third party custodian. The above shall apply to all investments with the exception of securities underlying overnight repurchase agreements; the custodial relationship for these instruments is described in Section XIII: Third Party Custodial Agreements.

c. Other

The City of Ocala has established a number of internal controls to prevent loss of funds by fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the City. The internal controls are as follows:

- Investment transactions authority is limited to specific persons, primarily the Finance Director and the Treasury Analyst, within the Finance Department.
- Wire transfer of funds authority is restricted to specific individuals with specific dollar limits within the Finance Department. All wire transfers require approval, confirmation, and authorization by a second individual specified in the wire authority document executed with the City's main depository.
- All investment transactions outside of the portfolio require the approval of the Assistant City Manager overseeing Finance.
- Monitoring of Investment portfolios is done by a third party consultant and reviewed quarterly. All investment managers should operate in compliance with the investment policy. Any deviation should be report to the investment committee.
- A quarterly investment report titled "Investments by Funds" is prepared by the Treasury Analyst and distributed to the Investment Committee early in the subsequent month for review. Any deviation from the Investment Policy by the portfolio manager will be discussed and an action plan determined. The City council will also be notified of the deviation and action plan.
- The Treasury Analyst in the Finance Department reconciles the City's general depository account on a monthly basis by comparing the City's general ledger with the account statements. The reconciliation of the general depository account would reveal any difference in investment transaction records and the actual movement of funds.
- Each year both internal auditors and the City's external auditors review existing internal controls as well as investment transactions by examining data on a random basis.

XIV. APPLICABLE CITY ORDINANCES

If at any time this document is found to be in conflict with the City Ordinances or applicable Florida Statutes, the Ordinances and Statutes shall prevail.

XV. REVIEW AND AMENDMENTS

It is the Investment Committee's intention to review this document at least annually and to amend this statement to reflect any changes in philosophy, objectives, or guidelines. In this regard, the Investment Manager's interest in consistency in these matters is recognized and will be taken into account when changes are being considered. If, at any time, the Investment Manager feels that the specific objectives defined herein cannot be met, or the guidelines constrict performance, the Committee should be notified in writing. By initialing and continuing acceptance of this Investment Policy Statement, the Investment Managers concur with the provisions of this document. By signing this document, the Assistant City Manager attests that this policy has been recommended by the Investment Consultant, reviewed by the City's legal counsel for compliance with applicable law, and approved by the Investment Committee.

CITY OF OCALA



Assistant City Manager



Date

Investment Manager

Date