



Introduction to Investments

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TODAY'S AGENDA

- | | |
|-----------|----------------------------|
| 1. | Investment Policies |
| 2. | Investment Types |
| 3. | Investment Risks |
| 4. | Managing Risks |
| 5. | Questions |

Investment Policies

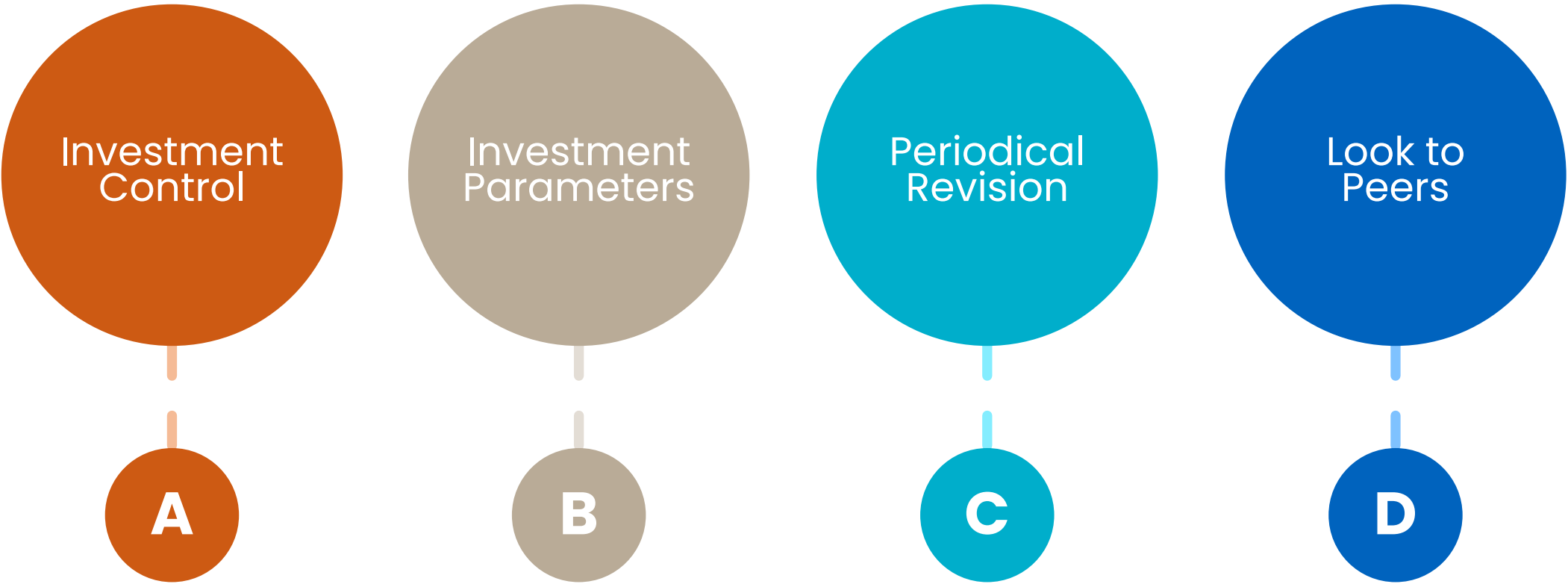


The background image shows a hand holding a pen and using a calculator. Overlaid on this is a semi-transparent bar chart with six bars of increasing height. A dotted line graph with a peak and a dip is also overlaid. The entire scene is set against a blurred background of a person in a blue shirt. The text 'Investment Policies' is centered in a large, white, sans-serif font.

Bar Index	Bar Height (approx.)	Line Graph Value (approx.)
1	1.5	1.2
2	2.5	2.8
3	3.5	4.5
4	4.5	6.2
5	5.5	7.8
6	6.5	6.5

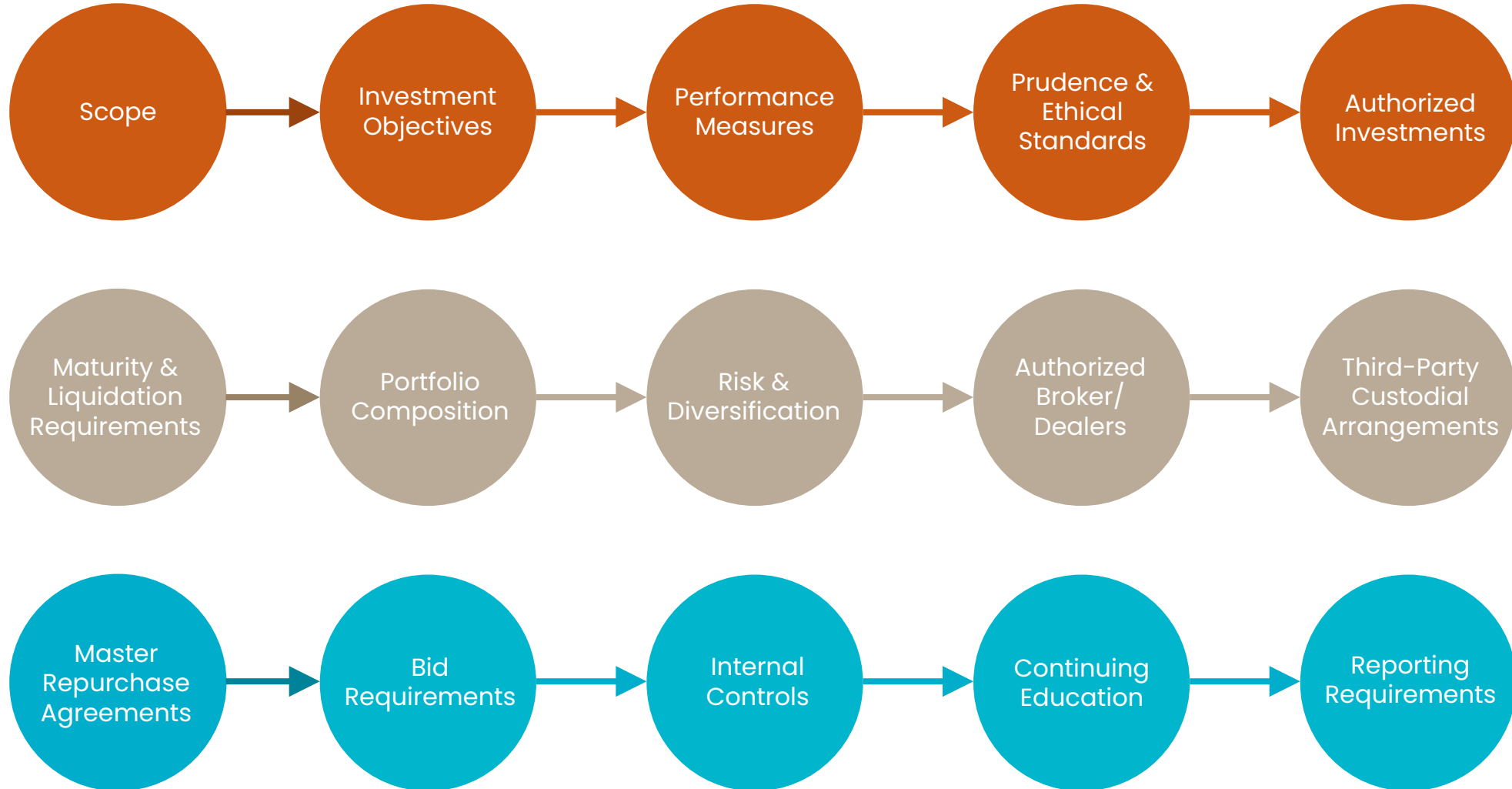
LOCAL GOVERNMENT INVESTMENT POLICIES

Florida Statutes 218.415



LOCAL GOVERNMENT INVESTMENT POLICIES

Written investment policies must address the following 15 points
adopted by the Government Body (e.g. Ordinance, and/or Resolution)



LOCAL GOVERNMENT INVESTMENT POLICIES



LOCAL GOVERNMENT INVESTMENT POLICIES

Performance Measurement



LOCAL GOVERNMENT INVESTMENT POLICIES

Portfolio Returns

Effective Rate of Return

What are we actually earning if all income is reinvested at and compounded over time at the same rate?

Risk-Adjusted Return

Are we being compensated fairly for the risk we're taking?

Total Return

What's our overall return when we factor in both income and price changes?

LOCAL GOVERNMENT INVESTMENT POLICIES

Investment Returns

Yield to Maturity (YTM)

If we hold this bond to maturity, collecting every interest payment and the principal, what's the total return we can expect?

Option-Adjusted Yield (OAY)

How does optionality affect our yield? The option-adjusted yield accounts for the likelihood that the bond might be called early.

Yield to Call (YTC)

What's our return if the bond is called at the first possible date?

Prudent Person Standard

Investments should be made with judgement 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.

LOCAL GOVERNMENT INVESTMENT POLICIES

Prudence
and Ethical
Standards



Conflicts of interest

Maturity and
Liquidity
Requirements



Sufficient liquidity when
required

LOCAL GOVERNMENT INVESTMENT POLICIES

Typical Investments Used by Local Governments

1. Cash and Cash Equivalents

2. Local Government Surplus Funds Trust Fund
(Florida PRIME)

3. United States Government Securities

4. Federal Instrumentalities
(United States Government Sponsored Enterprises)

5. Interest Bearing Deposits
(Time Deposits, CDs, or Savings Accounts)

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

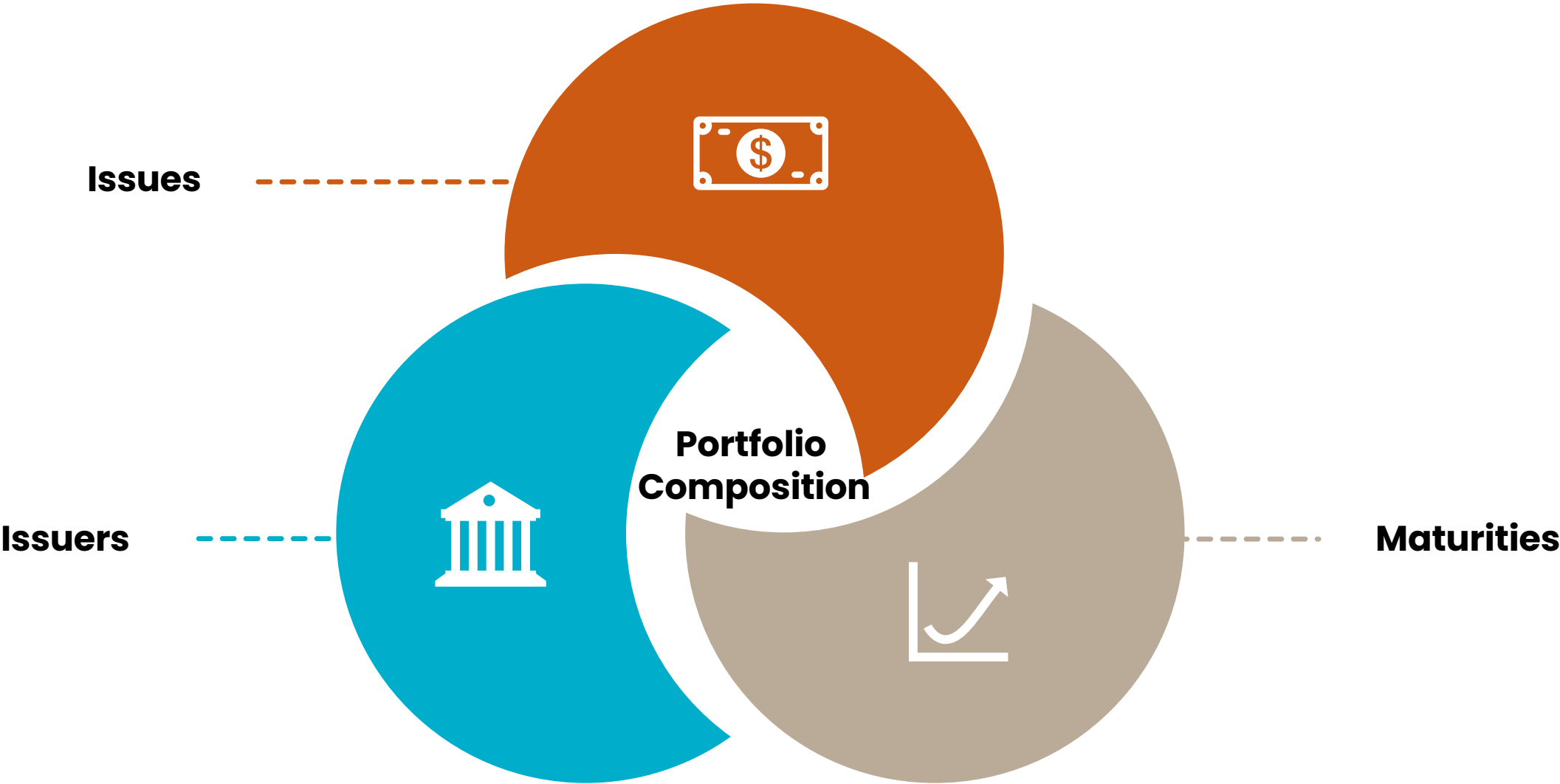
7. Registered Investment Companies
(Money Market Mutual Funds – AAAM)

8. Intergovernmental Investment Pools
(AAAM)

9. Commercial Paper

10. Corporate Bonds

LOCAL GOVERNMENT INVESTMENT POLICIES



LOCAL GOVERNMENT INVESTMENT POLICIES

Authorized Investment – Sector Type	Minimum Rating Requirement	Maturity Limits	Maximum Allocation	Individual Issuer Limit
Cash and Cash Equivalents	N/A	N/A	100%	N/A
Local Government Surplus Funds Trust Fund (Florida PRIME)	AAAm	N/A	25%	N/A
United States Government Securities	N/A	5 years	100%	N/A
Federal Instrumentalities (United States Government Sponsored Enterprises)	N/A	5 years	50%	30%
Interest Bearing Time Deposit, Certificates of Deposit or Savings Accounts – Qualified Public Depositories Only	N/A	1 year	10%	10%
State and /or Local Government Taxable and/or Tax-Exempt Debt	Aa3 and AA-	5 years	25%	5%
Registered Investment Companies (Money Market Mutual Funds)	AAAm	N/A	50%	10%
Intergovernmental Investment Pools	AAAm	N/A	100%	N/A

LOCAL GOVERNMENT INVESTMENT POLICIES

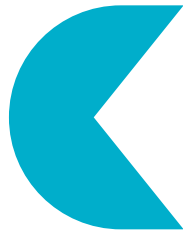
Risk and Diversification



Investments held should be diversified to the extent practicable to control the risk of loss resulting from overconcentration of assets



Risk & Diversification ensures your portfolio composition structure actually results in a well-balanced, resilient portfolio



Ongoing review and adjustment – for example: A particular corporate issuer gets downgraded to the lowest allowable credit rating under policy



Risk & Diversification asks: Even though we are still in compliance, should we proactively reduce exposure to this issuer before further deterioration?



LOCAL GOVERNMENT INVESTMENT POLICIES

Authorized Investment Institutions and Dealers

Recommended Minimum Qualifications:

- (a) Designated as a “primary dealer” by the Federal Reserve Bank of New York;
- (b) Qualified as a regional dealer under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
- (c) Capital of no less than \$10,000,000;
- (d) Registered as a dealer under the Securities Exchange Act of 1934;
- (e) Member of the Financial Industry Regulatory Authority, Inc. (FINRA);
- (f) Registered to sell securities in Florida;
- (g) Engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years; and
- (h) In good standing with FINRA and the Securities and Exchange Commission.

LOCAL GOVERNMENT INVESTMENT POLICIES

Custodial Agreements

- Lay out appropriate arrangements for the holding of assets
- No withdrawal of securities, except by an authorized staff member of the unit of local government
- “Delivery vs. Payment”



Master Repurchase Agreement

- IPS shall require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement
- Consistent legal and operational standards

LOCAL GOVERNMENT INVESTMENT POLICIES

Competitive Bidding

Best Practice – Obtain 3 Quotes
and Hold in Confidence

Acceptable Providers:

- ✓ Bloomberg Information Systems
- ✓ Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing
- ✓ Daily market pricing provided by the entity's custodian or their correspondent institutions

Internal Controls

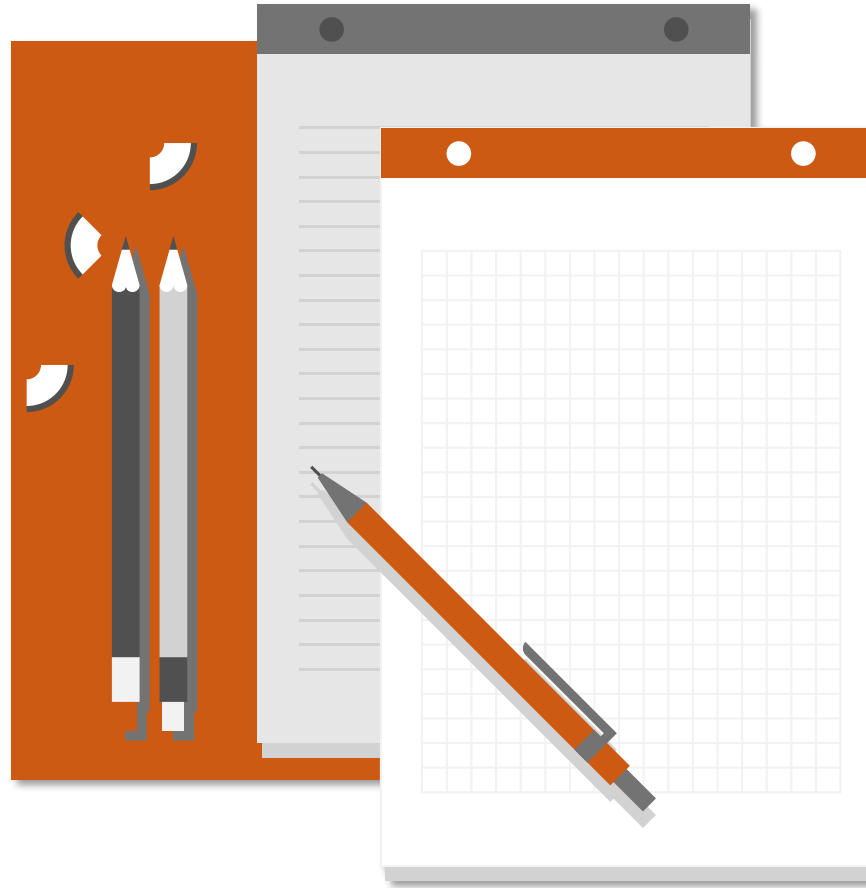
Designed to prevent loss

The internal controls shall be reviewed by independent auditors as part of any financial audit periodically required of the entity. The written internal controls should address, at a minimum, (a) transfers of all funds, (b) recordkeeping, (c) custodial safekeeping, (d) delegation of authority and supervisory control of employee actions, (e) written confirmation of telephone transactions, (f) repurchase agreements, (g) separation of transaction authority from accounting and recordkeeping, (h) wire transfer agreements, (i) banking service contracts, (j) collateral/depository agreements and (k) "delivery-vs-payment" procedures.

LOCAL GOVERNMENT INVESTMENT POLICIES

CONTINUING EDUCATION

- 8 hours in continuing education related to investment practices and products



REPORTING

- Annual or more frequent report of investment activities
- Breakdown of the portfolio including:
 - Security details
 - Book value
 - Market value
 - Income earned
 - Total return

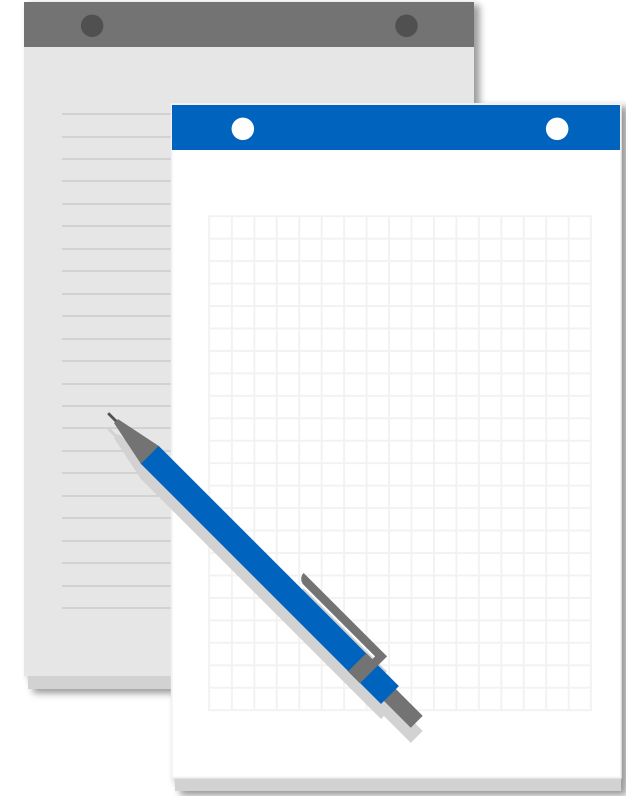
LOCAL GOVERNMENT INVESTMENT POLICIES

No Written Policy:

-  FL Prime or any intergovernmental pool
-  SEC registered MMFs – highest credit quality rating
-  CDs or Savings Accounts in QPDs
-  Direct Obligations of the U.S. Treasury

With a Written Policy:

-  The statute allows considerable flexibility



LOCAL GOVERNMENT INVESTMENT POLICIES

Questions to Ask Yourself

01

Are you able to allocate investments across all asset classes that you deem appropriate?

02

Has the entity's risk profile evolved since your initial investment strategy was established?

?

04

Are you comfortable with a certain level of price volatility, particularly if you intend to hold investments until maturity?

03

Do you have a clear understanding of your cash flow requirements? Are you strategically investing a portion of your core funds further along the yield curve?

Investment Types

The image features a hand holding a pen, poised over a calculator, which is resting on a surface. Overlaid on this scene are semi-transparent financial charts: a bar chart with several vertical bars of varying heights, and a line graph with a dotted line showing an upward trend. The background is a blurred image of a person in a teal shirt, suggesting a professional or financial setting. The overall color palette is warm, with orange and teal tones.

INVESTMENT TYPES

Demand Deposit Accounts

Transactional Checking Accounts

- Payroll, A/P

Earnings Credit Rate

- Rates applied to non-interest-bearing balances to offset service charges
- Used to calculate compensating balance
- Typically settles monthly

Savings/Money Market Accounts

- Compounding, frequency varies

INVESTMENT TYPES

Time Deposits or Certificates of Deposit

- Must be placed with Qualified Public Depositories (F.S. Chapter 280)
- Fixed Term Investment with specified maturity date
- Penalties for early withdrawal
- Negotiable certificates of deposit are prohibited under Chapter 280

INVESTMENT TYPES

U.S. Treasury Securities

Treasury Bills

- Issued by U.S. Treasury
- Maturities of 1 year or less
- Discount of face value

Government Notes

- Maturities of 2 to 10 years
- Purchase at par, premium, or discount
- Interest (coupons) paid semi-annually

Government Bonds

- Maturities of 10 to 30 years
- Purchase at par, premium, or discount
- Interest (coupons) paid semi-annually

INVESTMENT TYPES

Government-Sponsored Enterprises (GSEs)

- Financing entities that support lending to sectors of the economy
 - Housing
 - Agriculture
 - Home finance
- Unsecured debt obligations
 - Implied guarantee of U.S. Government
- Generally higher interest rates compared to Treasuries

Federal National
Mortgage
Association
(Fannie Mae)

Federal Home Loan
Mortgage
Corporation
(Freddie Mac)

Federal Home Loan
Bank
(FHLB)

Federal Farm Credit
System
(FFC)

INVESTMENT TYPES

Local Government Investment Pools (LGIPs)

- Pooling resources to potentially achieve higher rates of return
- Various styles
 - Prime
 - Government
- Own shares of beneficial interest in the pool/fund
- Not a bank deposit; not FDIC insured

INVESTMENT TYPES

Local Government Investment Pools (LGIPs)

Stable NAV

- Maintain \$1 in/\$1 out
- Highest S&P rating is "AAAm"
- Short-term
- WAM to Reset < 60 days

Variable NAV

- Fluctuating NAV
- Add Interest Rate Risk/Duration
- Designed to outperform over time
- Highest S&P rating is "AAAf/S1"
- Intermediate
- WAM for bond fund > 90 days

INVESTMENT TYPES

SEC Registered Money Market Funds (2A-7s)

- Various styles
 - Prime
 - Government
 - Muni
- Market rate
- Safety-focused
- Easy to use
- Not a bank deposit; not FDIC insured

INVESTMENT TYPES

Municipal Securities

- Obligation of a state, county, city, village, school district, or other special purpose district
- General obligation
 - Backed by the full faith & credit of the issuing entity – and its taxing power
- Revenue
 - Financed by a specific revenue source (i.e. tolls on a highway)

INVESTMENT TYPES

Commercial Paper

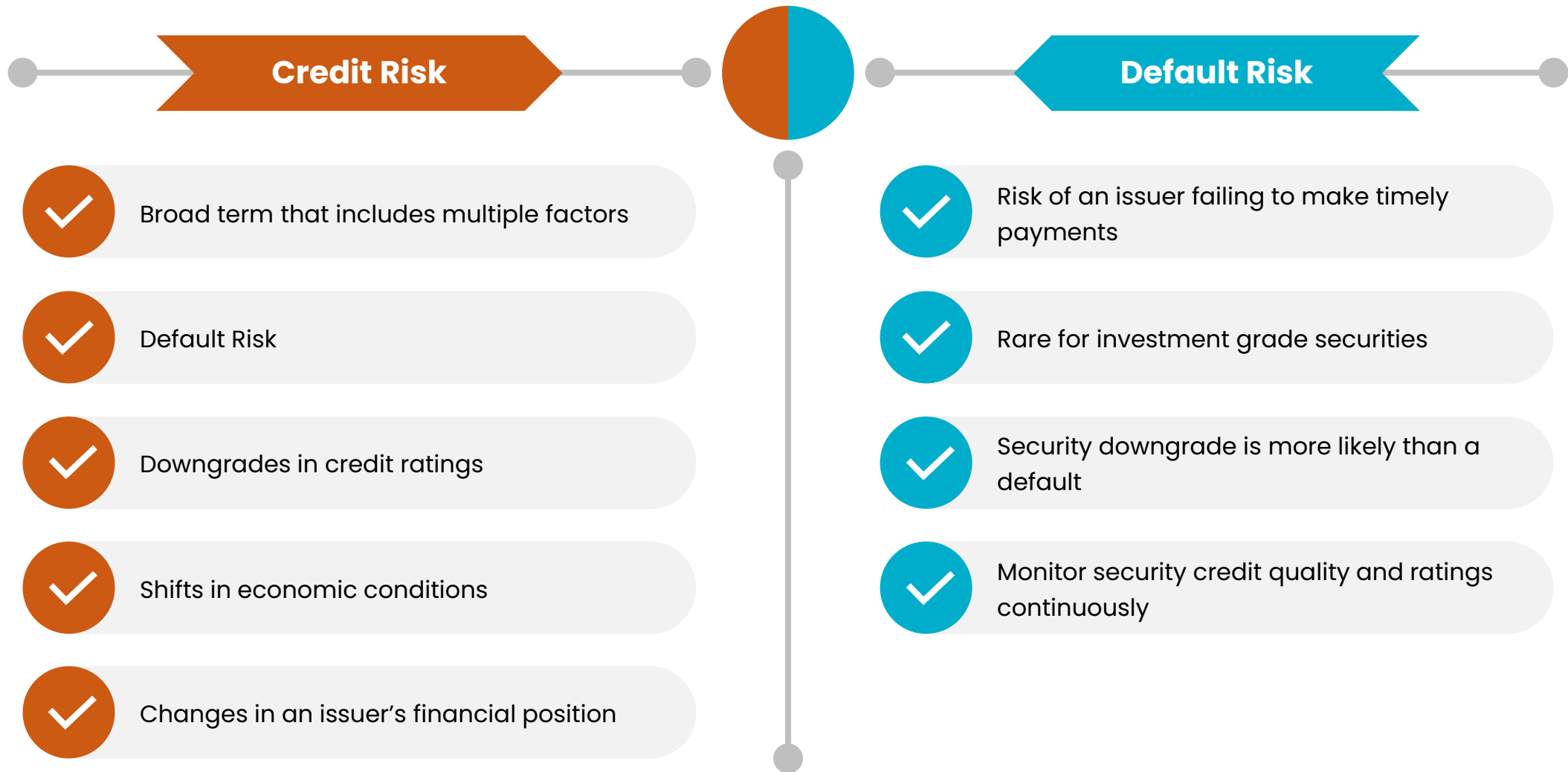
- Short-term unsecured promissory note
- Default risk present
- Industrial and financial firms are issuers
- Typically a higher return, with slightly higher risk

Corporate Bonds/Notes

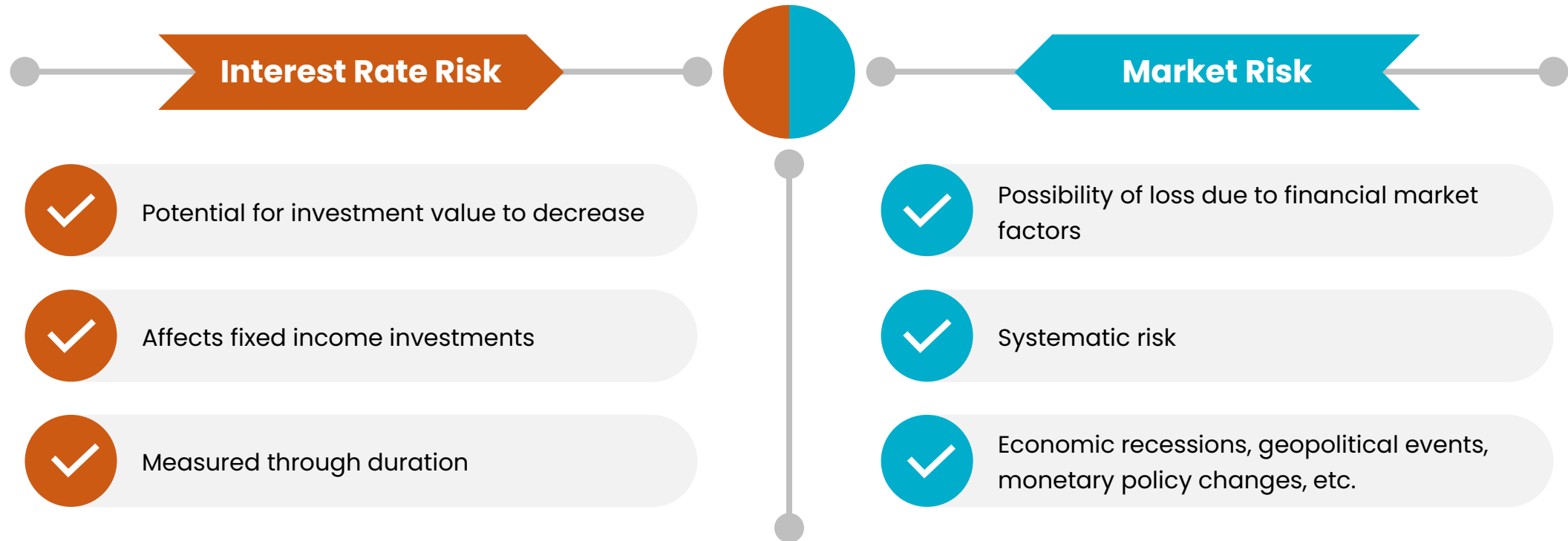
- Similar to CP, but with maturities > 1 year
- Higher returns compared to government securities
- Generally higher credit risk
- Greatly varied risk and return

A conceptual image for 'Investment Risks'. It features a hand using a pen to point at a calculator, overlaid with a semi-transparent grid and various financial data points, including percentages and numbers. The background is a blurred image of a person's hand holding a pen, suggesting a professional or financial context. The text 'Investment Risks' is prominently displayed in the center.

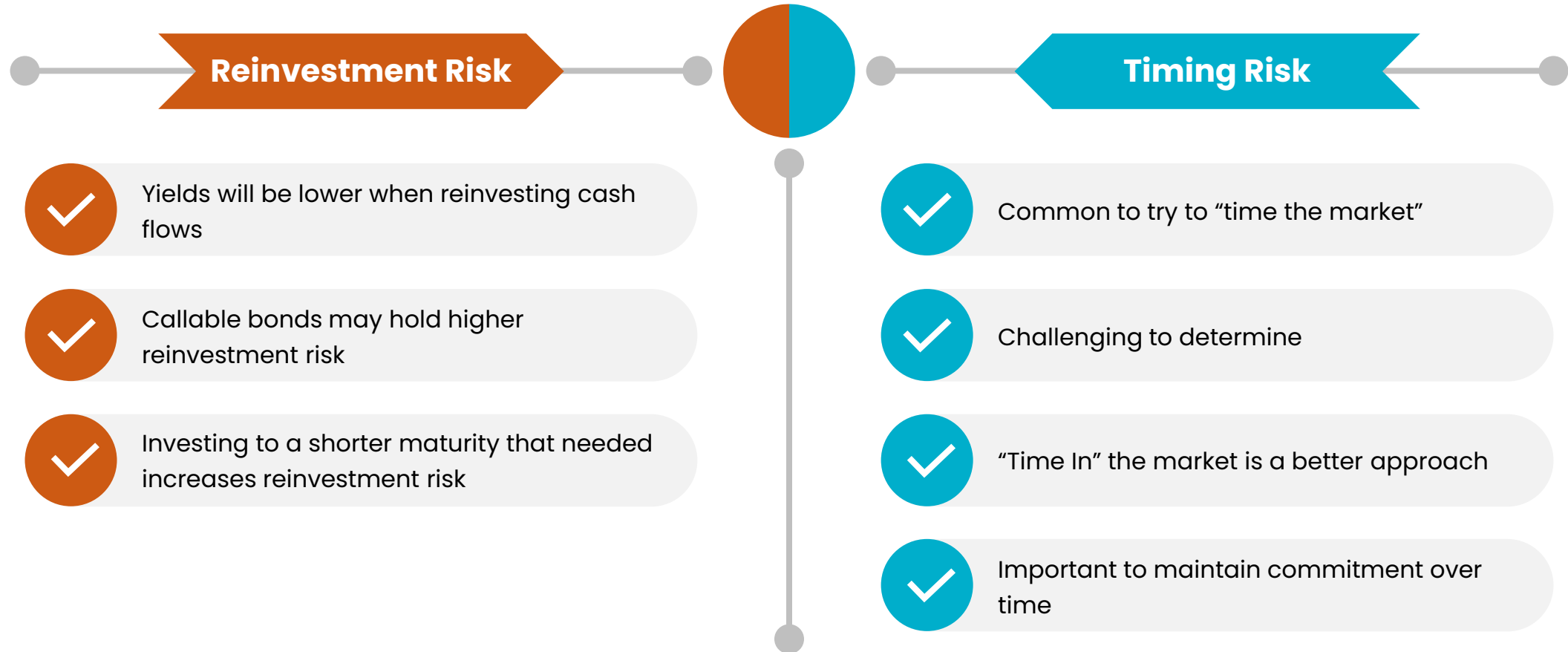
INVESTMENT RISKS



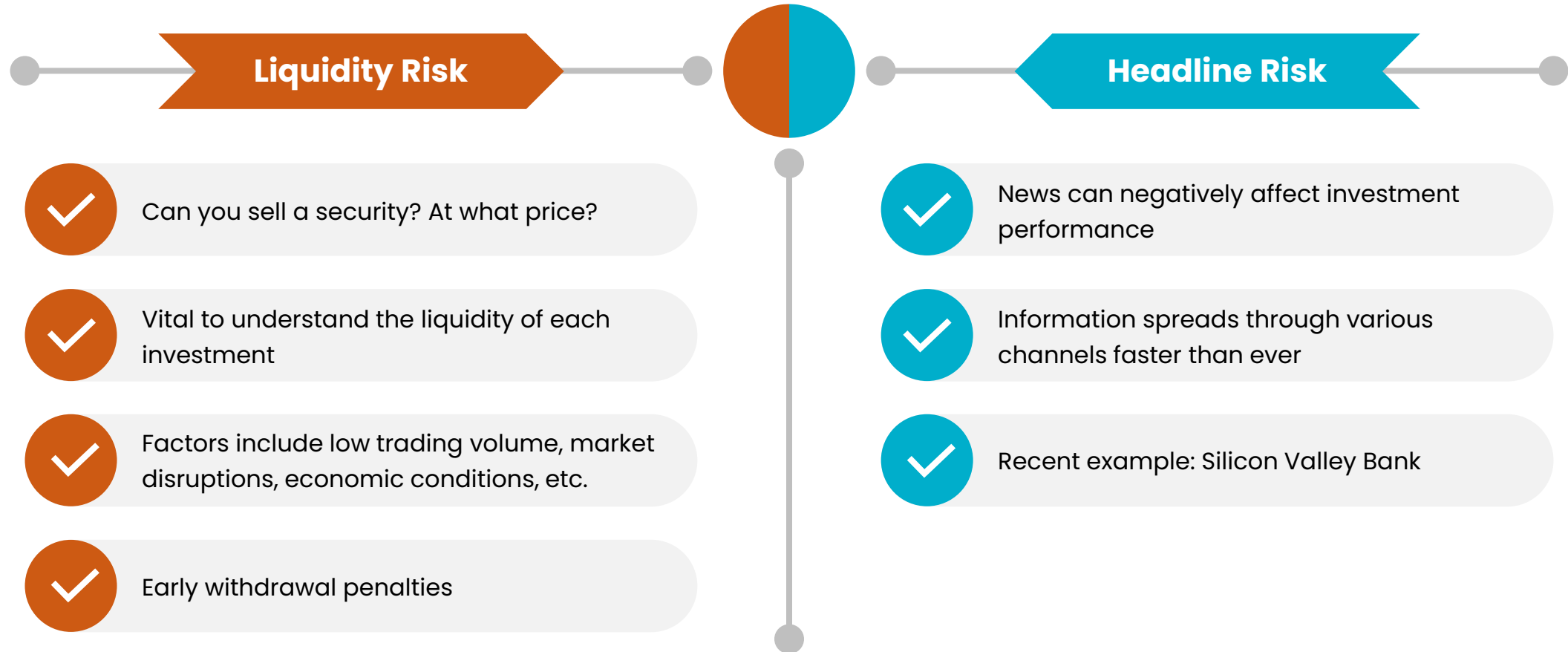
INVESTMENT RISKS



INVESTMENT RISKS



INVESTMENT RISKS



INVESTMENT RISKS

Managing Investment Risks

- 1 Effective Investment Planning is the best way to manage risks
- 2 Match assets and liabilities
- 3 Diversify
- 4 Limit investments to types you thoroughly understand
- 5 Don't try to time the market
- 6 Monitor credit ratings and/or utilize a Registered Investment Advisor

A hand is shown using a pen to calculate on a calculator. The background features a bar chart with several bars of varying heights. Overlaid on the image is a grid of numbers, including percentages and decimal values. The word "Questions?" is prominently displayed in the center.

Questions?

0.42	27.00	+1.83%	875,195	266.98
12.68	+1.80	+3.60%	1,725,948	1,579.0
27.00	+0.65	-0.12%	534,751	10.0
6.32	+0.02	-2.00%	195,732	6,172.4
0.12	-0.04	-14.10%	7,980,176	28,437
0.65	+0.23	+3.76%	606,555	12,169
25.63	+0.75	+21.90%	65,700	37,985
18.75				

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