**4-OP-D-2-H Investments**

**Responsible Executive​:** Finance and Administration

**Approving Official:** Vice President for Finance and Administration

**Effective Date:** June 1, 2023

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1. **INTRODUCTION**

**A. OBJECTIVE**

The purpose of this Investment Policy (hereinafter “Policy”) is to set forth the investment objectives and parameters for the management of the funds of the Florida State University, (hereinafter “University”). This Policy is designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

1. **POLICY**
   1. **OVERSIGHT**

The Vice President for Finance and Administration will appoint an Investment Committee (“Committee”) to consist of three or more individuals related to the University and familiar with investments. The Committee will oversee the University’s Investment program and may utilize the expertise of an investment advisor to assist in the oversight and implementation of the Funds. Such investment advisor must be registered under the Investment Advisers Act of 1940.

* 1. **SCOPE**

In accordance with Section 218.415, Florida Statutes, this Policy applies to cash and investments (hereafter “portfolio”) for operating funds under the University’s control in excess of those required to meet current expenses. In addition, a portion of the University’s operating funds may be designated for incremental longer-term growth and allocated to the Florida State University Foundation Long-Term Portfolio (“FSUF LTP”). The FSUF LTP Statement of Investment Policy and Objectives will apply to those funds instead of this Policy. This Policy applies only to funds not invested in the FSUF LTP. Funds which have statutory investment requirements conflicting with this Policy are not subject to the provisions of this Policy. Additionally, the Policy does not apply to pension funds, trust funds or funds related to the issuance of debt where there are other existing policies or Indentures in effect for such funds.

* 1. **INVESTMENT OBJECTIVES**

The University’s Policy shall be structured to ensure that the highest priority is placed on the safety of principal and the liquidity of funds. The University's investment portfolio shall be managed in a manner to attain a market rate of return throughout budgetary and economic cycles while preserving and protecting capital in the overall portfolio. Investments shall be made based upon statutory constraints and subject to the available designated staffing capabilities.

1. Safety of Principal – The foremost objective of this investment program is the safety of the principal of those funds within the portfolio(s). Investment transactions shall seek to be consistent with the other investment objectives, which are to keep capital losses at a minimum, whether they are from securities defaults or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

2. Maintenance of Liquidity – The portfolio(s) shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. Periodic cash flow analyses will be completed in order to ensure that the portfolio(s) is/are positioned to provide sufficient liquidity.

3. Return on Investment – The portfolio(s) shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. However, return is attempted through active management where authorized staff or the investment advisor utilizes a total return strategy (which includes both realized and unrealized gains and losses in the portfolio). This total return strategy seeks to increase the value of the portfolio through reinvestment of income and capital gains. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Despite this, authorized staff or an investment advisor may trade to recognize a loss from time to time to achieve a perceived relative value based on its potential to enhance the total return of the portfolio.

* 1. **DELEGATION OF AUTHORITY**

As designated by the Vice President for Finance and Administration (hereafter “Chief Financial Officer”), the responsibility for the administration of the investment program is vested in the University Controller. The University Controller shall exercise authority to regulate the administration of the investment program through the Finance Department. No person may engage in an investment transaction except as stated in the policy.

* 1. **PRUDENCE AND ETHICAL STANDARDS**

The University adopts the “Prudent Person” standard and shall be applied in the context of managing the overall investment program. The University Controller and staff, acting in accordance with the written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these changes are reported immediately, and that appropriate action is taken to control adverse developments. The "Prudent Person" rule states:

“Investments 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 from the investment.”

While the standard of prudence to be used by investment officials who are officers or employees is the “Prudent Person” standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of “Prudent Expert.” The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the contractor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

* 1. **ETHICS AND CONFLICTS OF INTEREST**

The University Controller, Controller’s Office Employees, and Investment Committee involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Also, the above personnel and Investment Committee members involved in the investment process shall disclose to the Chief Financial Officer any material financial interests in financial institutions that conduct business with the University, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the University’s investment program. Investment-related officers and personnel shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

* 1. **MATURITY AND LIQUIDITY REQUIREMENTS**

*The Short-Term Segment*, to the extent possible, an attempt will be made to match investment maturities with the University’s known cash needs and anticipated cash flow requirements. Investments of the Short-Term Segment shall have maturities of no longer than twenty-four (24) months. The maximum average duration of the Short-Term Segment is one and a quarter (1.25) years.

*Intermediate-Term Segment* (“core funds”) shall have a term appropriate to the need for funds. Investment of the Intermediate Term Segment in fixed-income maturities shall not exceed five and one-half (5.50) years from the date of settlement. The overall weighted average duration of the core funds shall be less than three (3) years.

*The Long-Term Segment* has an investment objective based on a long-term investment horizon (“Time Horizon”) of greater than five years. Interim fluctuations should be viewed with appropriate perspective. The University has adopted a long-term investment horizon such that the risks and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. Maturity and duration requirements do not apply to investments held in mutual funds.

* 1. **EXTERNAL INVESTMENT ADVISORS AND CONSULTANTS**

The Investment Committee shall have the authority to engage external professional advisors (i.e. investment advisor) they deem appropriate to supplement the University’s Investment staff. Performance reviews of all external advisors will be conducted by the Committee at least annually. In employing an investment advisor to manage portfolio(s), such investment advisor or firm must be registered under the Investment Adviser’s Act of 1940.

* 1. **PERFORMANCE MEASUREMENT**

Investment performance for each segment shall be measured against market indexes with similar maturity characteristics.

* + - 1. The Short-Term Segment shall be evaluated in comparison with the weighted average return (net book value rate of return) of the Standard & Poor’s Local Government Investment Pool All 30-Day rate (LGIP30D). The Standard & Poor’s LGIP30D represents Government Investment Pools that maintain a stable net asset value of $1 per share and are rated in Standard & Poor’s two highest money market fund rating categories: “AAAm” and “AAm.”
      2. The Intermediate-Term Segment as well as any investments with SPIA shall be evaluated with the annual objective of achieving a comparable total return performance to the ICE BofA 1-3 Year Government Index or ICE BofA 1-5 Year Government Index. These maturity ranges are appropriate benchmarks based on the objectives of the University. The average credit quality shall be no less than “A”.
      3. For the Long-Term Segment, the Investment Advisor shall compare the investment results on a quarterly basis to appropriate peer universe benchmarks, as well as market indices in both equity and fixed-income markets. Examples of benchmarks and indexes that will be used include the Russell 3000 Index for broad U.S. equity strategies; S&P 500 Index for large cap U.S. equities, Russell 2000 Index for small cap U.S. equities, MSCI ACWI ex-U.S. Index for broad based non-U.S. equity strategies; MSCI Europe, Australasia, and Far East (EAFE) Index for developed markets international equities, Barclays Capital Aggregate Bond Index for fixed-income securities, and the U.S. 91 Day T-bill for cash equivalents. The Russell 3000 Index will be used to benchmark the U.S. equities portfolio; the MSCI ACWI ex-U.S. Index will be used to benchmark the non-U.S. equities portfolio; the Bloomberg Barclays U.S. Aggregate Bond Index will be used to benchmark the fixed-income portfolio. The categories “Other” will be benchmarked against appropriate indices depending on the specific characteristics of the strategies and funds used.
      4. Other indices may be used from time to time to measure the portfolio performance.
  1. **RISK AND DIVERSIFICATION**

Investments held should be diversified to the extent practicable to control the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are bought and sold. Diversification strategies within the guidelines set forth in this policy should be reviewed and revised periodically as deemed necessary by the Investment Committee.

* 1. **AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS**

Authorized Staff shall only purchase securities from financial institutions which are qualified as public depositories by the Treasurer of the State of Florida, or institutions designated as “Primary Dealers” by the Federal Reserve Bank of New York. Qualified Public Depositories may provide the services of a securities dealer through a Section 20 subsidiary of the financial institution or from direct issuers of commercial paper and bankers’ acceptances.

The Long-Term Segment is exempt from this requirement.

The University’s Investment Advisor shall utilize and maintain its own list of approved primary and non-primary dealers.

* 1. **THIRD-PARTY CUSTODIAL AGREEMENTS**

All securities purchased by the University or by its approved Investment Advisor shall be properly designated as an asset of the University and held in safe keeping by a third-party custodial bank or other third-party custodial institution. The custodian shall accept transaction instructions only from those persons who have been duly authorized by the University and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping, shall be permitted unless by such a duly authorized person.

The custodian shall provide the University with safekeeping statements that provide detailed information on the securities held by the custodian. On a monthly basis, the custodian will also provide reports that list all securities held for the University, the book value of holdings and the market value as of month-end.

Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a “delivery vs. payment” basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

* 1. **MASTER REPURCHASE AGREEMENT**

The University Controller and Investment Advisor will utilize a Securities Industry and Financial Markets Association (SIFMA) master repurchase agreement and require all approved institutions and dealers transacting repurchase agreements to adhere to the requirements of the SIFMA master repurchase agreement.

* 1. **BID REQUIREMENT**

The University shall require purchases and sales to be executed in a competitive bid environment wherein at least three offers or bids are obtained for each security. Exceptions to this approach may be made when (1) prices for purchases/sales are compared to systems providing current market prices and deemed reasonable, (2) when the security to be purchased is unique to one institution, or (3) when the security has recently been issued and is trading at the same price by all financial institutions.

The Long-Term Segment is exempt from this requirement.

* 1. **INTERNAL CONTROLS**

The University Controller will establish a system of internal controls and operational procedures, which will be documented in writing. The controls will be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees and officers of the university.

* 1. **CONTINUING EDUCATION**

University employees responsible for making investment decisions will annually complete eight hours of continuing education in pertinent subjects or courses of study.

* 1. **REPORTING**

A detailed investment report will be prepared at least annually, which includes securities in all portfolios by class or type, book value, total return performance (if applicable to the strategy being utilized), income earned, and market value as of the report date. Each Investment Advisor shall provide the University with a “Quarterly Investment Report” that summarizes but is not limited to the following:

* + - 1. Recent market conditions, economic developments and anticipated investment conditions.
      2. The investment strategies employed in the most recent quarter.
      3. A description of all securities held in investment portfolios at month-end.
      4. The total rate of return performance (if applicable to the strategy being utilized) for the quarter and year-to-date versus appropriate benchmarks.
      5. Any areas of concern warranting possible revisions to current or planned investment strategies. The market values presented in these reports will be consistent with accounting guidelines in GASB Statement(s) 31, 40, and 72.
  1. **AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION**

Permitted Investments

Investments should be made subject to the cash flow needs and such cash flows are subject to revisions as market conditions and the University’s needs change. The University’s Controller’s Office is responsible for updating cash flow projections and expenditure projections. However, when the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, the University Controller or designee and/or the University’s Investment Advisor may sell the investment at the then-prevailing market price and place the proceeds into the proper account at the University’s custodian.

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the University. Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the University Controller. The University Controller, and/or University’s Investment Advisor shall have the option to further restrict investment percentages from time to time based on market conditions, risk and diversification investment strategies. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment, at the time of purchase. Investments not listed in this Policy are prohibited.

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| **Sector** | **Sector Maximum (%)** | **Per Issuer Maximum (%)** | **Minimum Ratings Requirement1** | **Maximum Maturity** | |
| U.S. Treasury | 100% | 100% | N/A | 5.50 Years | |
| GNMA | 100% | 40% | N/A | 5.50 Years  avg. life4 | |
| Other U.S. Government Guaranteed (e.g. AID, GTC) | 100% | 10% | N/A | 5.50 Years | |
| Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB\* | 75% | 40%3 | N/A | 5.50 Years | |
| Federal Agency/GSE other than those above | 75% | 10% | N/A | 5.50 Years | |
| Supranationals where U.S. is a shareholder and voting member | 25% | 10% | Highest ST or Highest LT Rating Categories (A-1/P-1, AAA/Aaa, or equivalent) | 5.50 Years | |
| Corporates | 50%2 | 25% | Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3 or equivalent) | 5.50 Years | |
| Municipals | 25% | 5% | Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent) | 5.50 Years | |
| Agency Mortgage-Backed Securities (MBS) | 25% | 40%3 | N/A | 5.50 Years  avg. life4 | |
| Asset-Backed Securities (ABS) | 25% | 5% | Highest ST or LT Rating (A-1+/P-1, AAA/Aaa, or equivalent) | 5.50 Years  avg. life4 | |
| Non-Negotiable Collateralized Bank Deposits (CDs) or Savings Accounts | 50% | None, if fully collateralized | None, if fully collateralized. | 2 Years | |
| Commercial Paper (CP) | 50%2 | 5% | Highest ST Rating Category (A-1/P-1, or equivalent) | 270 Days | |
| Repurchase Agreements (Repo or RP) | 40% | 20% | Counterparty (or if the counterparty is not rated by an NRSRO, then the counterparty’s parent) must be rated in the Highest ST Rating Category (A-1/P-1, or equivalent) If the counterparty is a Federal Reserve Bank, no rating is required | 1 Year | |
| Money Market Funds (MMFs) | 50% | 25% | Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent) | N/A | |
| Intergovernmental Pools (LGIPs) | 50% | 25% | Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP, (AAAm/AAAf, S1, or equivalent) | N/A | |
| Special Purpose Investment Account (SPIA) | 100% | N/A | Three Highest Fund Ratings by all NRSROs who rate the fund (A+f S2, or equivalent) | N/A | |
| Florida Local Government Surplus Funds Trust Funds (“Florida Prime”) | 80% | N/A | Highest Fund Rating by all NRSROs |  | |
| Mutual Funds & ETFs | 50% | 10% | N/A | N/A | |
| Internal Bank | 25% | N/A | N/A | N/A | |
| Notes:   * + - 1. Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization (“NRSRO”), unless otherwise noted. ST=Short-term; LT=Long-term.       2. Maximum allocation to all corporate and bank credit instruments is 50% combined.       3. Maximum exposure to any one federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.       4. The maturity limit for MBS and ABS is based on the expected average life at time of settlement, measured using Bloomberg or other industry standard methods. Average life reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security’s description.   \* Federal National Mortgage Association (FNMA); Federal Home Loan Mortgage Corporation (FHLMC); Federal Home Loan Bank or its District banks (FHLB); Federal Farm Credit Bank (FFCB). | | | | |

Important Terms

U.S. Treasury & Government Guaranteed - U.S. Treasury obligations, and obligations the principal and interest of which are backed or guaranteed by the full faith and credit of the U.S. Government.

Federal Agency/GSE - Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. Federal agency, instrumentality or government-sponsored enterprise (GSE).

Supranationals – U.S. dollar denominated debt obligations of a multilateral organization of governments where U.S. is a shareholder and voting member.

Corporates – U.S. dollar denominated corporate notes, bonds or other debt obligations issued or guaranteed by a domestic or foreign corporation, financial institution, non-profit, or other entity.

Municipals – Obligations, including both taxable and tax-exempt, issued or guaranteed by any State, territory or possession of the United States, political subdivision, public corporation, authority, agency board, instrumentality or other unit of local government of any State or territory.

Agency Mortgage-Backed Securities - Mortgage-backed securities (MBS), backed by residential, multi-family or commercial mortgages, that are issued or fully guaranteed as to principal and interest by a U.S. Federal agency or government sponsored enterprise, including but not limited to pass-throughs, collateralized mortgage obligations (CMOs) and REMICs.

Asset-Backed Securities - Asset-backed securities (ABS) whose underlying collateral consists of loans, leases or receivables, including but not limited to auto loans/leases, credit card receivables, student loans, equipment loans/leases, or home-equity loans.

Non-Negotiable Certificate of Deposit and Savings Accounts - Non-negotiable interest-bearing time certificates of deposit, or savings accounts in banks organized under the laws of this state or in national banks organized under the laws of the United States and doing business in this state, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes.

Commercial Paper – U.S. dollar denominated commercial paper issued or guaranteed by a domestic or foreign corporation, company, financial institution, trust or other entity, only unsecured debt permitted.

Repurchase Agreements - Repurchase agreements (Repo or RP) that meet the following requirements:

1. Must be governed by a written SIFMA Master Repurchase Agreement which specifies securities eligible for purchase and resale, and which provides the unconditional right to liquidate the underlying securities should the Counterparty default or fail to provide full timely repayment.
2. Counterparty must be a Federal Reserve Bank, a Primary Dealer as designated by the Federal Reserve Bank of New York, or a nationally chartered commercial bank.
3. Securities underlying repurchase agreements must be delivered to a third-party custodian under a written custodial agreement and may be of deliverable or tri-party form. Securities must be held in the University’s custodial account or in a separate account in the name of the University.
4. Acceptable underlying securities include only securities that are direct obligations of, or that are fully guaranteed by, the United States or any agency of the United States, or U.S. Agency-backed mortgage related securities.
5. Underlying securities must have an aggregate current market value of at least 102% (or 100% if the counterparty is a Federal Reserve Bank) of the purchase price plus current accrued price differential at the close of each business day.
6. Final term of the agreement must be 1 year or less.

Money Market Funds - Shares in open-end and no-load money market mutual funds, provided such funds are registered under the Investment Company Act of 1940 and operate in accordance with Rule 2a-7. A thorough investigation of any money market fund is required prior to investing, and on an annual basis. A current prospectus must be obtained.

Local Government Investment Pools – State, local government or privately-sponsored investment pools that are authorized pursuant to state law. A thorough investigation of any intergovernmental investment pool is required prior to investing, and on an annual basis. A current prospectus or information statement must be obtained.

Special Purpose Investment Account (SPIA) – The Florida State Treasury operates a special investment program for public entities. This program is authorized in Section 17.61(1), Florida Statutes and is called the Special Purpose Investment Account (SPIA). Component Units of the State, Universities, or Colleges that are created by the Florida Constitution or Florida Statutes are eligible to invest in SPIA. SPIA funds are combined with State funds and are invested as part of the Treasury Investment Pool. The Treasury Investment Pool invests in a combination of short-term liquid instruments and intermediate-term fixed-income securities.

The Florida Local Government Surplus Funds Trust Funds (“Florida Prime”) – A thorough investigation of the Florida Prime is required prior to investing, and on an annual basis. A current prospectus or portfolio report must be obtained.

Mutual Funds and ETFs – Shares in open-end and no-load mutual funds; which are professionally managed investment funds that pool money from many investors to purchase securities. Or exchange-traded funds (ETFs) which is a type of security that involves a collection of securities—such as stocks—that often tracks an underlying index, although they can invest in any number of industry sectors or use various strategies. ETFs are in many ways similar to mutual funds; however, they are listed on exchanges and ETF shares trade throughout the day just like ordinary stock.

* 1. **GENERAL INVESTMENT AND PORTFOLIO LIMITS**

**Short and Intermediate-Term Segments**

* + 1. General investment limitations:
       1. Investments must be denominated in U.S. dollars and issued for legal sale in U.S. markets.
       2. Minimum ratings are based on the highest rating by any one Nationally Recognized Statistical Ratings Organization (“NRSRO”), unless otherwise specified.
       3. All limits and rating requirements apply at time of purchase.
       4. Should a security fall below the minimum credit rating requirement for purchase, the Investment Advisor will notify the University Controller.
       5. The maximum maturity (or average life for MBS/ABS) of any investment is 5.50 years. Maturity and average life are measured from settlement date. The final maturity date can be based on any mandatory call, put, pre-refunding date, or other mandatory redemption date.
    2. General portfolio limitations:

a. The maximum effective duration of the aggregate Short-Term Segment is 1.25 years.

b. The maximum effective duration of the aggregate Intermediate Term Segment is 3 years.

c. Maximum exposure to issuers in any non-U.S. country cannot exceed 10 percent per country.

* + 1. Investment in the following are permitted, provided they meet all other policy requirements:
       1. Callable, step-up callable, called, pre-refunded, putable, and extendable securities, as long as the effective final maturity meets the maturity limits for the sector
       2. Variable-rate and floating-rate securities
       3. Subordinated, secured and covered debt, if it meets the ratings requirements for the sector
       4. Zero coupon issues and strips, excluding agency mortgage-backed Interest-only structures (I/Os)
       5. Treasury TIPS
    2. The following are NOT PERMITTED investments, unless specifically authorized by statute and with prior approval of the governing body:

1. Trading for speculation
2. Derivatives (other than callables and traditional floating or variable-rate instruments)
3. Mortgage-backed interest-only structures (I/Os)
4. Inverse or leveraged floating-rate and variable-rate instruments
5. Currency, equity, index and event-linked notes (e.g. range notes), or other structures that could return less than par at maturity
6. Private placements and direct loans, except as may be legally permitted by Rule 144A or commercial paper issued under a 4(2) exemption from registration
7. Convertible, high yield, and non-U.S. dollar denominated debt
8. Short sales
9. Use of leverage
10. Futures and options
11. Mutual funds, other than fixed-income mutual funds and ETFs, and money market funds
12. Equities, commodities, currencies and hard assets  
    * 1. Rebalancing Philosophy & Reporting Requirements

The asset allocation ranges established by this Policy for the Short and Intermediate Term segments are set to provide the University Controller with flexibility in responding to University cash needs and market conditions. The University Controller shall set target allocations within Policy limits for the on-going management of the University’s investments. The University Controller may adjust target allocations in order to respond to University cash needs and/or rapid unanticipated market shifts or changes in economic and/or market conditions. To the extent practicable, the Short and Intermediate Term segments shall not exceed target allocations for a period exceeding thirty (30) days. The University Controller shall document any changes to the target allocations within the Short and Intermediate Term segments. Such documentation shall be provided to the Investment Committee and the Vice President for Finance and Administration. The University Controller shall review and adjust, if necessary, the target allocations no more frequently than monthly and no less frequently than semi-annually. For the avoidance of doubt, the University Controller shall review, and may adjust, the Short and Intermediate Term segment target allocations annually on or before December 30 and subsequently on or before June 30 of each Fiscal Year.

**Long-Term Segment**

1. Investment Objectives
   * + 1. To enhance the value of Long-Term Segment assets in real terms over the long-term through asset appreciation and income generation, while maintaining a reasonable investment risk profile.
       2. Subject to performance expectations over the long-term, to minimize principal fluctuations over the time horizon.
2. Terms for Long-Term Segment

Within this section of the Policy, several terms will be used to articulate various investment concepts. The descriptions are meant to be general and may share investments otherwise considered to be in the same asset class. They are:

*Growth Assets* - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on capital appreciation. Investments within the Growth Assets category can include income and risk mitigating characteristics, so long as the predominant investment risk and return characteristic is capital appreciation. Examples of such investments or asset classes are: domestic and international equities or equity funds, private or leveraged equity, certain real estate investments, and hedge funds focused on equity risk mitigation or equity-like returns.

*Income Assets* - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on income generation. Investments within the Income Assets category can include capital appreciation and risk mitigating characteristics, so long as the primary investment risk and return characteristic is income generation. Examples of such investments or asset classes are: fixed-income securities, guaranteed investment contracts, certain real estate investments, and hedge funds focused on interest rate risk mitigation or income investment-like returns.

*Real Return Assets* - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on real returns after inflation. Investments within the Real Return category can include inflation protected securities, commodities, certain real estate investments and hedge funds.

1. Liquidity and Diversification

In general, the Long-Term Segment may hold some cash, cash equivalent, and/or money market funds for near-term Long Term Segment expenses. Remaining assets will be invested in longer-term investments and shall be diversified with the intent to minimize the risk of long-term investment losses. Consequently, the total portfolio will be constructed and maintained to provide diversification with regard to the concentration of holdings in individual issues, issuers, countries, governments or industries.

1. Asset Allocation

The Investment Committee believes that to achieve the greatest likelihood of meeting the Long-Term Segment’s investment objectives and the best balance between risk and return for optimal diversification, assets will be invested in accordance with the targets for each asset class as follows to achieve an average total annual rate of return that is equal to or greater than the Long-Term Segment’s target rate of return of 5% over the long-term.

|  |  |  |
| --- | --- | --- |
| **Asset Classes** | **Range** | **Asset Weightings Target** |
| **Growth Assets** |  |  |
| Domestic Equity | +/- 20 ppts | 42% |
| International Equity | +/- 20 ppts | 23% |
| Other | 0% - 20% | 0% |
| **Income Assets** |  |  |
| Fixed Income | +/- 20 ppts | 35% |
| Other | 0% - 20% | 0% |
| **Real Return Assets** | 0% - 20% | 0% |
| **Cash Equivalents** | 0% - 20% | 0% |

The Investment Adviser and each Manager will be evaluated against their peers on the performance of the total funds under their direct management.

1. Rebalancing Philosophy

The asset allocation range established by this Policy represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside Policy ranges. When allocations breach the specified ranges, the Investment Advisor or University Controller will rebalance the assets within the specified ranges. The Investment Advisor or University Controller may also rebalance based on market conditions.

1. Risk Tolerance

Subject to investment objectives and performance expectations, the Long-Term Segment will be managed in a style that seeks to minimize principal fluctuations over the established Time Horizon.

1. Selection of Investment Managers

The Investment Advisor shall prudently select appropriate Managers to invest the assets of the Long-Term Segment. Managers must meet the following criteria:

* The Manager must provide historical quarterly performance data compliant with Global Investment Performance Standards (GIPS®), Securities & Exchange Commission (“SEC”), Financial Industry Regulatory Agency (“FINRA”) or industry recognized standards, as appropriate.
* The Manager must provide detailed information on the history of the firm, key personnel, support personnel, key clients, and fee schedule (including most-favored-nation clauses). This information can be a copy of a recent Request for Proposal (“RFP”) completed by the Manager or regulatory disclosure.
* The Manager must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
* The investment professionals making the investment decisions must have a minimum of three (3) years of experience managing similar strategies either at their current firm or at previous firms.
* Where other than common funds such as mutual funds or commingled trusts are utilized, the Manager must confirm receipt, understanding and adherence to this Policy and any investment specific policies by signing a consent form provided to the Manager prior to investment of Long-Term Segment assets.

1. Guidelines for Long-Term Portfolio Holdings

Every effort shall be made, to the extent practical, prudent and appropriate, to select investments that have investment objectives and policies that are consistent with this Policy (as outlined in the following sub-sections of the “Guidelines for Portfolio Holdings”). However, given the nature of the investments, it is recognized that there may be deviations between this Policy and the objectives of these investments.

Limitations on Managers’ Portfolios

* + - * 1. Equities

No more than the greater of 5% or weighting in the relevant index (Russell 3000 Index for U.S. issues and MSCI ACWI ex-U.S. for non-U.S. issues) of the total equity portfolio valued at market may be invested in the common equity of any one corporation; ownership of the shares of one company shall not exceed 5% of those outstanding; and not more than 40% of equity valued at market may be held in any one sector, as defined by the Global Industry Classification Standard (GICS).

Domestic Equities: Other than the above constraints, there are no quantitative guidelines as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the Manager.

International Equities: The overall non-U.S. equity allocation should include a diverse global mix that is comprised of the equity of companies from multiple countries, regions and sectors.

* + - * 1. Fixed Income

Fixed-income securities of any one issuer shall not exceed 5% of the total bond portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other federal agencies. The overall rating of the fixed-income assets as calculated by the Investment Advisor shall be investment grade, based on the rating of one Nationally Recognized Statistical Rating Organization (“NRSRO”).

* + - * 1. Other Assets (Alternatives)

Alternatives may consist of non-traditional asset classes such as hedge funds, private equity, real estate and commodities, when deemed appropriate. The total allocation to this category may not exceed 20% of the overall portfolio.

Hedge Funds: Primary objective shall be to enhance the risk-return profile of the overall portfolio. This can be accomplished by using a combination of hedge fund strategies that may enhance returns at a reasonable level of risk or reduce volatility while providing a reasonable level of return. These asset classes may differ from traditional public market asset classes due to the use of certain strategies including short-selling, leverage, and derivatives. Hedge funds may also invest across asset classes. The use of direct hedge funds and fund-of-hedge funds are allowed. For purposes of asset allocation targets and limitations, single strategy hedge funds will be categorized under the specific asset class of the fund. For example, a long/short U.S. equity fund will be categorized as “Other” in the Growth Assets category while a long/short credit fund will be categorized as “Other” in the Income Assets category. Multi-strategy hedge funds that cannot be easily categorized under one asset class will be included in “Other” under either the Growth Assets or Income Assets category depending on the risk-return profile of the strategy.

Private Equity: Private equity is less liquid than publicly traded equity securities and can provide returns that are greater than what is available in publicly traded markets. The private equity portfolio may include investments in a variety of commingled/partnership and direct investment vehicles including, but not limited to, venture capital, buyout, turnaround, mezzanine, distressed security, and special situation funds. The private equity portfolio is recognized to be long-term in nature and highly illiquid. Due to their higher risk, private equity investments are expected to provide higher returns than publicly traded equity securities. For purposes of asset allocation targets and limitations, these funds will be categorized as “Other” under the Growth Assets category.

Real Estate: Consists of publicly traded Real Estate Investment Trust (“REIT”) securities and/or non-publicly traded private real estate and shall be diversified across a broad array of property types and geographic locations. Investments of this type are designed to provide a stable level of income combined with potential for price appreciation, particularly in periods of unexpected inflation. For private real estate, the illiquid, long-term nature should be considered. For purposes of asset allocation targets and limitations, publicly traded REITs will be categorized as “Other” under the Growth Assets category. Depending on the investment characteristics of a private real estate fund, the fund will be categorized as “Other” under either the Income Assets category, for example, a core real estate fund, or under the Growth Assets category, for example, an opportunistic real estate fund where capital gains are expected to make up a significant portion of the total return.

Inflation Hedge: Shall consist of pooled vehicles holding among other assets: Treasury Inflation Protected Securities (“TIPS”), commodities or commodity contracts, index-linked derivative contracts, certain real estate or real property funds and the equity of companies in businesses thought to hedge inflation. Inflation hedge assets will be reported in the Real Return Assets category.

* + - * 1. Cash Equivalents

Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

* 1. **PORTFOLIO RISK HEDGING**

Portfolio investments designed to hedge various risks including volatility risk, interest rate risk, etc. are allowed to the extent that the investments are not used for the sole purpose of leveraging Long Term Segment assets. One example of a hedge vehicle is an exchange traded fund (“ETF”) which takes short positions.

* 1. **PROHIBITED INVESTMENTS**

The following are NOT PERMITTED for Long-Term Investments, unless specifically authorized by statute and with prior approval of the governing body:

Except for purchase within authorized investments, securities having the following characteristics are not authorized and shall not be purchased: letter stock and other unregistered securities, direct commodities or commodity contracts, or private placements (with the exception of Rule 144A securities). Further, derivatives, options, or futures for the sole purpose of direct portfolio leveraging are prohibited. Direct ownership of real estate, natural resource properties such as oil, gas or timber and the purchase of collectibles is also prohibited.

* 1. **VOTING OF PROXIES**

The Investment Committee recognizes that proxies are a significant and valuable tool in corporate governance. The voting rights of individual stocks held in separate accounts or collective, common, or pooled funds will be exercised by the investment managers in accordance with their own proxy voting policies. The voting rights of funds will be exercised by the Investment Advisor as permitted under Florida law.

1. **LEGAL SUPPORT, JUSTIFICATION, AND REVIEW OF THIS POLICY**

Section 1011.42(5), Florida Statutes

Section 218.415, Florida Statutes

This policy shall be reviewed by the Associate Vice President for Finance & Administration (AVP) every seven years for its effectiveness. The AVP shall make recommendations to the Vice President for Finance and Administration for any modification or elimination.

|  |  |  |  |
| --- | --- | --- | --- |
| /s/ Name of Approving Official |  |  |  |
| [Proof of approval retained in file] |  |  |  |

ATTACHMENT A: Glossary of Cash and Investment Management Terms

**DEFINITIONS/GLOSSARY OF TERMS**

The following is a glossary of key investing terms, many of which appear in the University’s policy. This glossary clarifies the meaning of investment terms generally used in cash and investment management. This glossary has been adapted from the GFOA Sample Investment Policy and the Association of Public Treasurers of the United States and Canada’s Model Investment Policy.

*Accrued Interest*. Interest earned but which has not yet been paid or received.

*Agency*. See "Federal Agency Securities."

*Ask Price*. Price at which a broker/dealer offers to sell a security to an investor. Also known as “offered price.”

*Asset Backed Securities (ABS)*. A fixed-income security backed by notes or receivables against assets other than real estate. Generally issued by special purpose companies that “own” the assets and issue the ABS. Examples include securities backed by auto loans, credit card receivables, home equity loans, manufactured housing loans, farm equipment loans, and aircraft leases.

*Average Life*. The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

*Bankers' Acceptance (BA's)*. A draft or bill of exchange drawn upon and accepted by a bank. Frequently used to finance shipping of international goods. Used as a short-term credit instrument, bankers' acceptances are traded at a discount from face value as a money market instrument in the secondary market on the basis of the credit quality of the guaranteeing bank.

*Basis Point*. One hundredth of one percent, or 0.01%. Thus 1% equals 100 basis points.

*Bearer Security*. A security whose ownership is determined by the holder of the physical security. Typically, there is no registration on the issuer’s books. Title to bearer securities is transferred by delivery of the physical security or certificate. Also known as “physical securities.”

*Benchmark Bills*. In November 1999, FNMA introduced its Benchmark Bills program, a short-term debt securities issuance program to supplement its existing discount note program. The program includes a schedule of larger, weekly issues in three- and six-month maturities and biweekly issues in one-year for Benchmark Bills. Each issue is brought to market via a Dutch (single price) auction. FNMA conducts a weekly auction for each Benchmark Bill maturity and accepts both competitive and non‑competitive bids through a web-based auction system. This program is in addition to the variety of other discount note maturities, with rates posted on a daily basis, which FNMA offers. FNMA's Benchmark Bills are unsecured general obligations that are issued in book-entry form through the Federal Reserve Banks. There are no periodic payments of interest on Benchmark Bills, which are sold at a discount from the principal amount and payable at par at maturity. Issues under the Benchmark program constitute the same credit standing as other FNMA discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

*Benchmark Notes/Bonds*. Benchmark Notes and Bonds are a series of FNMA “bullet” maturities (non-callable) issued according to a pre-announced calendar. Under its Benchmark Notes/Bonds program, 2, 3, 5, 10, and 30-year maturities are issued each quarter. Each Benchmark Notes new issue has a minimum size of $4 billion, 30-year new issues having a minimum size of $1 billion, with re‑openings based on investor demand to further enhance liquidity. The amount of non-callable issuance has allowed FNMA to build a yield curve in Benchmark Notes and Bonds in maturities ranging from 2 to 30 years. The liquidity emanating from these large size issues has facilitated favorable financing opportunities through the development of a liquid overnight and term repo market. Issues under the Benchmark program constitute the same credit standing as other FNMA issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

*Benchmark*. A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance, and duration of the actual portfolio's investments.

*Bid Price*. Price at which a broker/dealer offers to purchase a security from an investor.

*Bond*. Financial obligation for which the issuer promises to pay the bondholder (the purchaser or owner of the bond) a specified stream of future cash-flows, including periodic interest payments and a principal repayment.

*Book Entry Securities*. Securities that are recorded in a customer’s account electronically through one of the financial markets electronic delivery and custody systems, such as the Fed Securities wire, DTC, and PTC (as opposed to bearer or physical securities). The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors’ concerns about the certificates themselves. The vast majority of securities are now book entry securities.

*Book Value*. The value at which a debt security is reflected on the holder's records at any point in time. Book value is also called “amortized cost” as it represents the original cost of an investment adjusted for amortization of premium or accretion of discount. Also called “carrying value.” Book value can vary over time as an investment approaches maturity and differs from “market value” in that it is not affected by changes in market interest rates.

*Broker/Dealer*. A person or firm transacting securities business with customers. A “broker” acts as an agent between buyers and sellers and receives a commission for these services. A “dealer” buys and sells financial assets from its own portfolio. A dealer takes risk by owning inventory of securities, whereas a broker merely matches up buyers and sellers. See also "Primary Dealer."

*Bullet Notes/Bonds*. Notes or bonds that have a single maturity date and are non-callable.

*Call Date*. Date at which a call option may be or is exercised.

*Call Option*. The right, but not the obligation, of an issuer of a security to redeem a security at a specified value and at a specified date or dates prior to its stated maturity date. Most fixed-income calls are a par, but can be at any previously established price. Securities issued with a call provision typically carry a higher yield than similar securities issued without a call feature. There are three primary types of call options (1) European - one-time calls, (2) Bermudan - periodically on a predetermined schedule (quarterly, semi-annual, annual), and (3) American - continuously callable at any time on or after the call date. There is usually a notice period of at least 5 business days prior to a call date.

*Callable Bonds/Notes*. Securities which contain an imbedded call option giving the issuer the right to redeem the securities prior to maturity at a predetermined price and time.

*Certificate of Deposit (CD)*. Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity). Can be as long as 10 years to maturity, but most CDs purchased by public agencies are one year and under.

*Collateral*. Investment securities or other property that a borrower pledges to secure repayment of a loan, secure deposits of public monies, or provide security for a repurchase agreement.

*Collateralization*. Process by which a borrower pledges securities, property, or other deposits for securing the repayment of a loan and/or security.

*Collateralized Mortgage Obligation (CMO)*. A security that pools together mortgages and separates them into short, medium, and long-term positions (called tranches). Tranches are set up to pay different rates of interest depending upon their maturity. Interest payments are usually paid monthly. In “plain vanilla” CMOs; principal is not paid on a tranche until all shorter tranches have been paid off. This system provides interest and principal in a more predictable manner. A single pool of mortgages can be carved up into numerous tranches each with its own payment and risk characteristics.

*Commercial Paper*. Short-term unsecured promissory note issued by a company or financial institution. Issued at a discount and matures for par or face value. Usually, a maximum maturity of 270 days and given a short-term debt rating by one or more NRSROs.

*Convexity*. A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

*Corporate Note*. A debt instrument issued by a corporation with a maturity of greater than one year and less than ten years.

*Counterparty*. The other party in a two-party financial transaction. "Counterparty risk" refers to the risk that the other party to a transaction will fail in its related obligations. For example, the bank or broker/dealer in a repurchase agreement.

*Coupon Rate*. Annual rate of interest on a debt security, expressed as a percentage of the bond’s face value.

*Current Yield*. Annual rate of return on a bond based on its price. Calculated as (coupon rate / price) but does not accurately reflect a bond’s true yield level.

*Custody*. Safekeeping services offered by a bank, financial institution, or trust company, referred to as the “custodian.” Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement, and market values.

*Dealer*. A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own account.

*Delivery Versus Payment (DVP)*. Settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Fed Securities Wire system and DTC, are done DVP as a protection for both the buyer and seller of securities.

*Depository Trust Company (DTC)*. A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs, and BAs clear through DTC.

*Derivatives*. (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities, or commodities). For hedging purposes, common derivatives are options, futures, interest rate swaps, and swaptions.

*Derivative Security*. Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

*Designated Bond*. FFCB’s regularly issued, liquid, non-callable securities that generally have a 2- or 3-year original maturity. New issues of Designated Bonds are $1 billion or larger. Re-openings of existing Designated Bond issues are generally a minimum of $100 million. Designated Bonds are offered through a syndicate of two to six dealers. Twice each month the Funding Corporation announces its intention to issue a new Designated Bond, reopen an existing issue, or to not issue or reopen a Designated Bond. Issues under the Designated Bond program constitute the same credit standing as other FFCB issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

*Discount Notes*. Unsecured general obligations issued by federal agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year. Very large primary (new issue) and secondary markets exist.

*Discount Rate*. Rate charged by the system of Federal Reserve Banks on overnight loans to member banks. Changes to this rate are administered by the Federal Reserve and closely mirror changes to the “fed funds rate.”

*Discount Securities*. Non‑interest bearing money market instruments that are issued at discount and redeemed at maturity for full face value. Examples include: U.S. Treasury Bills, Federal Agency Discount Notes, Bankers' Acceptances, and Commercial Paper.

*Discount*. The amount by which a bond or other financial instrument sells below its face value. See also "Premium."

*Diversification*. Dividing investment funds among a variety of security types, maturities, industries, and issuers offering potentially independent returns.

*Dollar Price*. A bond’s cost expressed as a percentage of its face value. For example, a bond quoted at a dollar price of 95 ½, would have a principal cost of $955 per $1,000 of face value.

*Duff & Phelps*. One of several NRSROs that provide credit ratings on corporate and bank debt issues.

*Duration*. The weighted average maturity of a security’s or portfolio’s cash-flows, where the present values of the cash-flows serve as the weights. The greater the duration of a security/portfolio, the greater its percentage price volatility with respect to changes in interest rates. Used as a measure of risk and a key tool for managing a portfolio versus a benchmark and for hedging risk. There are also different kinds of duration used for different purposes (e.g. MacAuley Duration, Modified Duration).

*Fannie Mae*. See "Federal National Mortgage Association."

*Fed Money Wire*. A computerized communications system that connects the Federal Reserve System with its member banks, certain U. S. Treasury offices, and the Washington D.C. office of the Commodity Credit Corporation. The Fed Money Wire is the book entry system used to transfer cash balances between banks for themselves and for customer accounts.

*Fed Securities Wire*. A computerized communications system that facilitates book entry transfer of securities between banks, brokers and customer accounts, used primarily for settlement of U.S. Treasury and Federal Agency securities.

*Fed*. See "Federal Reserve System."

*Federal Agency Security*. A debt instrument issued by one of the federal agencies. Federal Agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

*Federal Agency*. Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets. The largest federal agencies are GNMA, FNMA, FHLMC, FHLB, FFCB, SLMA, and TVA.

*Federal Deposit Insurance Corporation (FDIC)*. Federal agency that insures deposits at commercial banks, currently to a limit of $250,000 per depositor per bank.

*Federal Farm Credit Bank (FFCB)*. One of the large federal agencies. A government sponsored enterprise (GSE) system that is a network of cooperatively-owned lending institutions that provides credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm-affiliated businesses. Consists of the consolidated operations of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks. Frequent issuer of discount notes, agency notes and callable agency securities. FFCB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and agricultural industry. Also issues notes under its “designated note” program.

*Federal Funds (Fed Funds)*. Funds placed in Federal Reserve Banks by depository institutions in excess of current reserve requirements, and frequently loaned or borrowed on an overnight basis between depository institutions.

*Federal Funds Rate (Fed Funds Rate)*. The interest rate charged by a depository institution lending Federal Funds to another depository institution. The Federal Reserve influences this rate by establishing a "target" Fed Funds rate associated with the Fed's management of monetary policy.

*Federal Home Loan Bank System (FHLB)*. One of the large federal agencies. A government sponsored enterprise (GSE) system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its “global note” and “TAP” programs.

*Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")*. One of the large federal agencies. A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages and participation interests financed by the sale of debt and guaranteed mortgage-backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities, and MBS. Also issues notes under its “reference note” program.

*Federal National Mortgage Association (FNMA or "Fannie Mae")*. One of the large federal agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its “benchmark note” program.

*Federal Reserve Bank*. One of the 12 distinct banks of the Federal Reserve System.

*Federal Reserve System (the Fed)*. The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Fed Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven-member Board of Governors known as the “Federal Reserve Board” and headed by its Chairman.

*Financial Industry Regulatory Authority, Inc. (FINRA)*. A private corporation that acts as a self‑regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD). Though sometimes mistaken for a government agency, it is a non-governmental organization that performs financial regulation of member brokerage firms and exchange markets. The government also has a regulatory arm for investments, the Securities and Exchange Commission (SEC).

*Fiscal Agent/Paying Agent*. A bank or trust company that acts, under a trust agreement with a corporation or municipality, in the capacity of general treasurer. The agent performs such duties as making coupon payments, paying rents, redeeming bonds, and handling taxes relating to the issuance of bonds.

*Fitch Investors Service, Inc*. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

*Floating Rate Security (FRN or “floater”)*. A bond with an interest rate that is adjusted according to changes in an interest rate or index. Differs from variable-rate debt in that the changes to the rate take place immediately when the index changes, rather than on a predetermined schedule. See also “Variable Rate Security.”

*Freddie Mac*. See "Federal Home Loan Mortgage Corporation."

*Ginnie Mae*. See "Government National Mortgage Association."

*Global Notes*. Notes designed to qualify for immediate trading in both the domestic U.S. capital market and in foreign markets around the globe. Usually, large issues that are sold to investors worldwide and therefore have excellent liquidity. Despite their global sales, global notes sold in the U.S. are typically denominated in U.S. dollars.

*Government National Mortgage Association (GNMA or "Ginnie Mae")*. One of the large federal agencies. Government-owned federal agency that acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities. Largest issuer of mortgage pass-through securities. GNMA debt is guaranteed by the full faith and credit of the U.S. government (one of the few agencies that are actually full faith and credit of the U.S. government).

*Government Securities*. An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, Bonds, and SLGS."

*Government Sponsored Enterprise (GSE)*. Privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. government, but they are not direct obligations of the U.S. government. For this reason, these securities will offer a yield premium over U.S. Treasuries. Examples of GSEs include: FHLB, FHLMC, FNMA, and SLMA.

*Government Sponsored Enterprise Security*. A security issued by a Government Sponsored Enterprise. Considered Federal Agency Securities.

*Index*. A compilation of statistical data that tracks changes in the economy or in financial markets.

*Interest-Only (IO) STRIP*. A security based solely on the interest payments from the bond. After the principal has been repaid, interest payments stop and the value of the security falls to nothing. Therefore, IOs are considered risky investments. Usually associated with mortgage-backed securities.

*Internal Controls*. An internal control structure ensures that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that

* + - * 1. the cost of a control should not exceed the benefits likely to be derived and

the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

Control of collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

Separation of transaction authority from accounting and record keeping - A separation of duties is achieved by separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction.

Custodial safekeeping - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.

Avoidance of physical delivery securities - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

Clear delegation of authority to subordinate staff members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

Written confirmation of transactions for investments and wire transfers - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.

Development of a wire transfer agreement with the lead bank and third-party custodian - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

*Internal Bank*. Established by the Vice President for Finance & Administration from unrestricted available university resources to provide internal financing for capital projects, bridge funding, or other prudent purposes.

*Inverse Floater*. A floating rate security structured in such a way that it reacts inversely to the direction of interest rates. Considered risky as their value moves in the opposite direction of normal fixed-income investments and whose interest rate can fall to zero.

*Investment Advisor*. A company that provides professional advice managing portfolios, investment recommendations, and/or research in exchange for a management fee.

*Investment Adviser Act of 1940*. Federal legislation that sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

*Investment Grade*. Bonds considered suitable for preservation of invested capital, including bonds rated a minimum of Baa3 by Moody’s, BBB- by Standard & Poor’s, or BBB- by Fitch. Although “BBB” rated bonds are considered investment grade, most public agencies cannot invest in securities rated below “A.”

*Liquidity*. Relative ease of converting an asset into cash without significant loss of value. Also, a relative measure of cash and near-cash items in a portfolio of assets. Additionally, it is a term describing the marketability of a money market security correlating to the narrowness of the spread between the bid and ask prices.

*Local Government Investment Pool (LGIP)*. An investment by local governments in which their money is pooled as a method for managing local funds, (e.g., Florida State Board of Administration’s Florida Prime Fund).

*Long-Term Core Investment Program*. Funds that are not needed within a one-year period.

*Market Value*. The fair market value of a security or commodity. The price at which a willing buyer and seller would pay for a security.

*Mark-to-market*. Adjusting the value of an asset to its market value, reflecting in the process unrealized gains or losses.

*Master Repurchase Agreement*. A widely accepted standard agreement form published by the Securities Industry and Financial Markets Association (SIFMA) that is used to govern and document repurchase agreements and protect the interest of parties in a repo transaction.

*Maturity Date*. Date on which principal payment of a financial obligation is to be paid.

*Medium Term Notes (MTN's)*. Used frequently to refer to corporate notes of medium maturity (5-years and under). Technically, any debt security issued by a corporate or depository institution with a maturity from 1 to 10 years and issued under an MTN shelf registration. Usually issued in smaller issues with varying coupons and maturities and underwritten by a variety of broker/dealers (as opposed to large corporate deals issued and underwritten all at once in large size and with a fixed coupon and maturity).

*Money Market*. The market in which short-term debt instruments (bills, commercial paper, bankers’ acceptance, etc.) are issued and traded.

*Money Market Mutual Fund (MMF)*. A type of mutual fund that invests solely in money market instruments, such as: U.S. Treasury bills, commercial paper, bankers' acceptances, and repurchase agreements. Money market mutual funds are registered with the SEC under the Investment Company Act of 1940 and are subject to “rule 2a-7” which significantly limits average maturity and credit quality of holdings. MMF’s are managed to maintain a stable net asset value (NAV) of $1.00. Many MMFs carry ratings by a NRSRO.

*Moody's Investors Service*. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

*Mortgage-Backed Securities (MBS)*. Mortgage-backed securities represent an ownership interest in a pool of mortgage loans made by financial institutions, such as savings and loans, commercial banks, or mortgage companies, to finance the borrower's purchase of a home or other real estate. The majority of MBS are issued and/or guaranteed by GNMA, FNMA, and FHLMC. There are a variety of MBS structures with varying levels of risk and complexity. All MBS have reinvestment risk as actual principal and interest payments are dependent on the payment of the underlying mortgages which can be prepaid by mortgage holders to refinance and lower rates or simply because the underlying property was sold.

*Mortgage Pass-Through Securities*. A pool of residential mortgage loans with the monthly interest and principal distributed to investors on a pro-rata basis. The largest issuer is GNMA.

*Municipal Note/Bond*. A debt instrument issued by a state or local government unit or public agency. The vast majority of municipals are exempt from state and federal income tax, although some non-qualified issues are taxable.

*Mutual Fund*. Portfolio of securities professionally managed by a registered investment company that issues shares to investors. Many different types of mutual funds exist (e.g., bond, equity, and money market funds); all except money market funds operate on a variable net asset value (NAV).

*Negotiable Certificate of Deposit (Negotiable CD)*. Large denomination CDs ($100,000 and larger) that are issued in bearer form and can be traded in the secondary market.

*Net Asset Value*. The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets including securities, cash, and any accrued earnings, then subtracting the total assets from the fund's liabilities, and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.)

[(Total assets) - (Liabilities)]/(Number of shares outstanding)

*NRSRO*. A “Nationally Recognized Statistical Rating Organization” (NRSRO) is a designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating. Includes Moody’s, S&P, Fitch, and Duff & Phelps.

*Offered Price*. See also "Ask Price."

*Open Market Operations*. A Federal Reserve monetary policy tactic entailing the purchase or sale of government securities in the open market by the Federal Reserve System from and to primary dealers in order to influence the money supply, credit conditions, and interest rates.

*Par Value*. The face value, stated value, or maturity value of a security.

*Physical Delivery*. Delivery of readily available underlying assets at contract maturity.

*Portfolio*. Collection of securities and investments held by an investor.

*Premium*. The amount by which a bond or other financial instrument sells above its face value. See also "Discount."

*Primary Dealer*. A designation given to certain government securities dealer by the Federal Reserve Bank of New York. Primary dealers can buy and sell government securities directly with the Fed. Primary dealers also submit daily reports of market activity and security positions held to the Fed and are subject to its informal oversight. Primary dealers are the largest buyers and sellers by volume in the U.S. Treasury securities market.

*Prime Paper*. Commercial paper of high quality. Highest rated paper is A-1+/A-1 by S&P and P-1 by Moody’s.

*Principal*. Face value of a financial instrument on which interest accrues. May be less than par value if some principal has been repaid or retired. For a transaction, principal is par value times price and includes any premium or discount.

*Prudent Expert Rule*. Standard that requires that a fiduciary manage a portfolio with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. This statement differs from the “prudent person” rule in that familiarity with such matters suggests a higher standard than simple prudence.

*Prudent Investor Standard*. Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. More stringent than the “prudent person” standard as it implies a level of knowledge commensurate with the responsibility at hand.

*Qualified Public Depository* - Per Subsection 280.02(26), F.S., “qualified public depository” means any bank, savings bank, or savings association that:

1. Is organized and exists under the laws of the United States, the laws of this state or any other state or territory of the United States.
2. Has its principal place of business in this state or has a branch office in this state which is authorized under the laws of this state or of the United States to receive deposits in this state.
3. Has deposit insurance under the provision of the Federal Deposit Insurance Act, as amended, 12 U.S.C. ss.1811 et seq.
4. Has procedures and practices for accurate identification, classification, reporting, and collateralization of public deposits.
5. Meets all requirements of Chapter 280, F.S.
6. Has been designated by the Chief Financial Officer as a qualified public depository.

*Range Note*. A type of structured note that accrues interest daily at a set coupon rate that is tied to an index. Most range notes have two coupon levels; a higher accrual rate for the period the index is within a designated range, the lower accrual rate for the period that the index falls outside the designated range. This lower rate may be zero and may result in zero earnings.

*Rate of Return*. Amount of income received from an investment, expressed as a percentage of the amount invested.

*Realized Gains (Losses)*. The difference between the sale price of an investment and its book value. Gains/losses are “realized” when the security is actually sold, as compared to “unrealized” gains/losses which are based on current market value. See “Unrealized Gains (Losses).”

*Reference Bills*. FHLMC’s short-term debt program created to supplement its existing discount note program by offering issues from one month through one year, auctioned on a weekly or on an alternating four-week basis (depending upon maturity) offered in sizeable volumes ($1 billion and up) on a cycle of regular, standardized issuance. Globally sponsored and distributed, Reference Bill issues are intended to encourage active trading and market-making and facilitate the development of a term repo market. The program was designed to offer predictable supply, pricing transparency, and liquidity, thereby providing alternatives to U.S. Treasury bills. FHLMC’s Reference Bills are unsecured general corporate obligations. This program supplements the corporation’s existing discount note program. Issues under the Reference program constitute the same credit standing as other FHLMC discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

*Reference Notes*. FHLMC’s intermediate-term debt program with issuances of 2, 3, 5, 10, and 30-year maturities. Initial issuances range from $2 - $6 billion with re-openings ranging $1 - $4 billion. The notes are high-quality bullet structures securities that pay interest semiannually. Issues under the Reference program constitute the same credit standing as other FHLMC notes; they simply add organization and liquidity to the intermediate- and long-term Agency market.

*Repurchase Agreement (Repo)*. A short-term investment vehicle where an investor agrees to buy securities from a counterparty and simultaneously agrees to resell the securities back to the counterparty at an agreed upon time and for an agreed upon price. The difference between the purchase price and the sale price represents interest earned on the agreement. In effect, it represents a collateralized loan to the investor, where the securities are the collateral. Can be DVP, where securities are delivered to the investor’s custodial bank, or “tri-party” where the securities are delivered to a third-party intermediary. Any type of security can be used as “collateral,” but only some types provide the investor with special bankruptcy protection under the law. Repos should be undertaken only when an appropriate Securities Industry and Financial Markets Association (SIFMA) approved master repurchase agreement is in place.

*Reverse Repurchase Agreement (Reverse Repo)*. A repo from the point of view of the original seller of securities. Used by dealers to finance their inventory of securities by essentially borrowing at short-term rates. Can also be used to leverage a portfolio and in this sense, can be considered risky if used improperly.

*Safekeeping*. Service offered for a fee, usually by financial institutions, for the holding of securities and other valuables. Safekeeping is a component of custody services.

*Secondary Market*. Markets for the purchase and sale of any previously issued financial instrument.

*Securities Industry and Financial Markets Association (SIFMA)*. The bond market trade association representing the largest securities markets in the world. In addition to publishing a Master Repurchase Agreement, widely accepted as the industry standard document for repurchase agreements, the SIFMA also recommends bond market closures and early closes due to holidays.

*Securities Lending*. An arrangement between and investor and a custody bank that allows the custody bank to “loan” the investors investment holdings, reinvest the proceeds in permitted investments, and shares any profits with the investor. Should be governed by a securities lending agreement. Can increase the risk of a portfolio in that the investor takes on the default risk on the reinvestment at the discretion of the custodian.

*Sinking Fund*. A separate accumulation of cash or investments (including earnings on investments) in a fund in accordance with the terms of a trust agreement or indenture, funded by periodic deposits by the issuer (or other entity responsible for debt service), for the purpose of assuring timely availability of moneys for payment of debt service. Usually used in connection with term bonds.

*Spread*. The difference between the price of a security and similar maturity U.S. Treasury investments, expressed in percentage terms or basis points. A spread can also be the absolute difference in yield between two securities. The securities can be in different markets or within the same securities market between different credits, sectors, or other relevant factors.

*Standard & Poor's*. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

*STRIPS (Separate Trading of Registered Interest and Principal of Securities)*. Acronym applied to U.S. Treasury securities that have had their coupons and principal repayments separated into individual zero-coupon Treasury securities. The same technique and "strips" description can be applied to non-Treasury securities (e.g., FNMA strips).

*Structured Notes*. Notes that have imbedded into their structure options such as step‑up coupons or derivative-based returns.

*Supranational*. Supranational organizations are international financial institutions that are generally established by agreements among nations, with member nations contributing capital and participating in management. These agreements provide for limited immunity from the laws of member countries. Bonds issued by these institutions are part of the broader class of Supranational, Sovereign, and Non-U.S. Agency (SSA) sector bonds. Supranational bonds finance economic and infrastructure development and support environmental protection, poverty reduction, and renewable energy around the globe. For example, the World Bank, International Finance Corporation (IFC), and African Development Bank (AfDB) have “green bond” programs specifically designed for energy resource conservation and management. Supranational bonds, which are issued by multi-national organizations that transcend national boundaries. Examples include the World Bank, African Development Bank, and European Investment Bank.

*Swap*. Trading one asset for another.

*TAP Notes*. Federal Agency notes issued under the FHLB TAP program. Launched in 6/99 as a refinement to the FHLB bullet bond auction process. In a break from the FHLB’s traditional practice of bringing numerous small issues to market with similar maturities, the TAP Issue Program uses the four most common maturities and reopens them up regularly through a competitive auction. These maturities (2, 3, 5, and 10 year) will remain open for the calendar quarter, after which they will be closed, and a new series of TAP issues will be opened to replace them. This reduces the number of separate bullet bonds issued but generates enhanced awareness and liquidity in the marketplace through increased issue size and secondary market volume.

*Tennessee Valley Authority (TVA)*. One of the largest federal agencies. A wholly owned corporation of the United States government that was established in 1933 to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. Power operations are separated from non-power operations. TVA securities represent obligations of TVA, payable solely from TVA's net power proceeds, and are neither obligations of nor guaranteed by the United States. TVA is currently authorized to issue debt up to $30 billion. Under this authorization, TVA may also obtain advances from the U.S. Treasury of up to $150 million. Frequent issuer of discount notes, agency notes, and callable agency securities.

*Total Return*. Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

*Treasuries*. Collective term used to describe debt instruments backed by the U.S. government and issued through the U.S. Department of the Treasury. Includes Treasury bills, Treasury notes, and Treasury bonds. Also a benchmark term used as a basis by which the yields of non‑Treasury securities are compared (e.g., "trading at 50 basis points over Treasuries").

*Treasury Bills (T-Bills)*. Short-term direct obligations of the United States government issued with an original term of one year or less. Treasury bills are sold at a discount from face value and do not pay interest before maturity. The difference between the purchase price of the bill and the maturity value is the interest earned on the bill. Currently, the U.S. Treasury issues 4-week, 13-week, and 26-week T‑Bills.

*Treasury Bonds*. Long-term interest-bearing debt securities backed by the U.S. government and issued with maturities of ten years and longer by the U.S. Department of the Treasury.

*Treasury Notes*. Intermediate interest-bearing debt securities backed by the U.S. government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury. The Treasury currently issues 2-year, 3-year, 5-year, and 10-year Treasury Notes.

*Trustee*. A bank designated by an issuer of securities as the custodian of funds and official representative of bondholders. Trustees are appointed to ensure compliance with the bond documents and to represent bondholders in enforcing their contract with the issuer.

*Uniform Net Capital Rule*. SEC Rule 15c3‑1 that outlines the minimum net capital ratio (ratio of indebtedness to net liquid capital) of member firms and non‑member broker/dealers.

*Unrealized Gains (Losses)*. The difference between the market value of an investment and its book value. Gains/losses are “realized” when the security is actually sold, as compared to “unrealized” gains/losses which are based on current market value. See also “Realized Gains (Losses).”

*Variable-Rate Security*. A bond that bears interest at a rate that varies over time based on a specified schedule of adjustment (e.g., daily, weekly, monthly, semi-annually, or annually). See also “Floating Rate Note.”

*Weighted Average Maturity (or just “Average Maturity”)*. The average maturity of all securities and investments of a portfolio, determined by multiplying the par or principal value of each security or investment by its maturity (days or years), summing the products, and dividing the sum by the total principal value of the portfolio. A simple measure of risk of a fixed-income portfolio.

*Weighted Average Maturity to Call*. The average maturity of all securities and investments of a portfolio, adjusted to substitute the first call date per security for maturity date for those securities with call provisions.

*Yield Curve*. A graphic depiction of yields on like securities in relation to remaining maturities spread over a timeline. The traditional yield curve depicts yields on U.S. Treasuries, although yield curves exist for federal agencies and various credit quality corporates as well. Yield curves can be positively sloped (normal) where longer-term investments have higher yields, or “inverted” (uncommon) where longer-term investments have lower yields than shorter ones.

*Yield to Call (YTC)*. Same as “Yield to Maturity,” except the return is measured to the first call date rather than the maturity date. Yield to call can be significantly higher or lower than a security’s yield to maturity.

*Yield to Maturity (YTM)*. Calculated return on an investment, assuming all cash-flows from the security are reinvested at the same original yield. Can be higher or lower than the coupon rate depending on market rates and whether the security was purchased at a premium or discount. There are different conventions for calculating YTM for various types of securities.

*Yield*. There are numerous methods of yield determination. In this glossary, see also "Current Yield,” "Yield Curve," "Yield to Call," and "Yield to Maturity."