

POLICY: 6Hx28:6-02



Responsible Executive: Vice President,
Business Operations and Chief Financial
Officer

Specific Authority: 1001.64(5) and 218.415,
F.S.

Law Implemented: 1001.64(5) and 218.415,
F.S.

Effective Date: 10-16-2007

Date of Last Policy Review:
10-16-2007

Investment of Funds

Policy Statement:

- I. The investment of current (surplus) funds by Valencia College shall be in accordance with 1001.64(5) and 218.415 of the Florida Statutes and other provisions of Florida law relating to investment by educational institutions.

- II. In this regard, the President or his designee shall promptly prepare a written investment plan in accordance with the requirements of F.S. 1001.64(5) and 218.415 which, among other items required by F.S. 218.415 for investment policies, shall set forth the scope, investment objectives, performance measurement(s), types of authorized investments, and adopt the “Prudent Person Rule” as the standard for making such investments. The policy shall place the highest priority in making investments on the safety of principal and liquidity of funds of the College.

Policy History:

Adopted 4-26-78; Amended 12-15-82; Amended 7-15-92; Amended 11-18-92; Amended 1-21-98; Amended 12-10-02; Amended 10-16-07; Formerly 6Hx28:6-25; Formerly 6Hx28:06-05

Procedures:

I. Internally Managed Funds

A. Scope and General Guidelines

1. This Investment Plan applies to any surplus funds (Fund), managed internally by Valencia College staff, maintained for the benefit of the District Board of Trustees of Valencia College (College).
2. Management of the Fund shall be in accordance with Florida Statute 218.415 and State Board of Education rule 6A-14.0765.
3. Subject to the limitations provided above and throughout the Investment Plan, the College shall have full discretion in terms of asset mix, security selection and timing of transactions.
4. The President of the College, or his designee, will appoint an Investment Committee to oversee the management of the Investment Plan. The Investment Committee will retain authority to manage the College's portfolio within the stated guidelines in the Plan to provide maximum benefit to the College.
5. The Investment Plan for the College consists of two distinct portfolio management plans, one internally managed and one externally managed. The two Investment Plans are not mutually exclusive of each other.

B. Investment Objectives

The Fund's primary objective is to place the highest priority on the safety of principal and liquidity of funds. A secondary objective is to maximize income (book yield) while providing minimal risk of market value volatility and adequate short-term liquidity to meet any cash flow demands.

C. Performance Measurement

The portfolio seeks to outperform its benchmark on a total return basis. The target benchmark to be used is the U.S. Treasury one year constant maturity index. This benchmark is consistent with the Plan's intended average maturity and overall objective of principal preservation and liquidity of funds.

D. Prudence and Ethical Standards

Investments shall be made in accordance with the "Prudent Person Rule," as contained in Florida Statute 218.415(4), which states that: "Investments shall be made with judgment and care, under circumstances then prevailing, which

persons of prudence, discretion and intelligence would 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.”

E. Authorized Investments

Investments shall be limited to fixed income securities selected from the following types:

1. U.S. Treasury Bills, Notes, Bonds and other obligations whose principal and interest is fully guaranteed by the United States of America or any of its agencies or instrumentalities.
2. Government Sponsored Enterprises (GSE): Federal Farm Credit Bank (FFCB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB), Student Loan Marketing Association (SLMA), Financing Corporation (FICO), The Resolution Funding Corporation (REFCO), Farm Credit System Financial Assistance Corporation, the Federal Housing Finance Board and all other government sponsored agencies and enterprises.
3. Certificates of Deposit in state-certified qualified public depositories.
4. Money Market Instruments: securities rated “A1/P1” or better, or the equivalent as a minimum as defined by Standard & Poor's and/or Moody's or other nationally recognized credit rating organizations at the time of purchase. Included but not limited to commercial paper, time deposits and banker's acceptances.
5. Money Market Funds registered with the SEC. This may include the purchase of shares in open ended, no load money market funds regulated under the Investment Company Act of 1940, operating in accordance with rule 2(A)7. The fund investment guidelines must state that “the fund will seek to maintain a \$1 per share net asset value.”
6. Any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in F.S. 163.01, which maintains a similar investment objective.
7. Any investment fund regulated or advised by a Registered Investment Advisor under the Investment Company Act of 1940, Rule 3C7. Such fund investment guidelines must state that “the fund will seek to maintain a \$1 per share net asset value.”

F. Maturity and Liquidity Requirements

The investment portfolio (Fund) shall be constructed in such manner as to provide sufficient liquidity to pay obligations as they come due. To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements. The intent of the Plan is to buy and hold financial instruments until maturity whenever feasible. The portfolio will endeavor to maintain an average maturity of 18 months.

G. Portfolio Composition

1. Recognizing that market value volatility is a function of maturity, the College shall maintain the Fund as a short to medium term maturity portfolio. A maximum of 5% of the Fund may be invested in securities of any single issuer. U.S. Government, Government Agency, GSE securities, SEC regulated 2A(7) funds, approved 3(C)7 funds, and Florida state sponsored investment pools are not subject to any limitations.

2. The Fund must maintain a total quality rating of 8.0 or higher on the following scale:
 - a. U.S. Government fully guaranteed, or fully Guaranteed by Florida public depository Requirements 10.0
 - b. Government sponsored enterprises (GSE): 9.0
 - c. State sponsored investment pools 8.0
 - d. "AAA"-rated securities: 7.0
 - e. "AA"-rated securities: 6.0

H. Risk and Diversification

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

I. Third-Party Custodial Agreements

All securities purchased by Valencia College under this Plan shall be properly designated as an asset of the District Board of Trustees of Valencia College and held in safe keeping by a third party custodial bank or other third party custodial institution.

J. Internal Controls

The Vice President of Business Operations and Finance or designee will establish a system of internal controls. The controls will be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of entity. The controls will incorporate all applicable guidelines as stated in Section 17 of the Accounting Manual for Florida's Public Colleges.

K. Reporting

Unless otherwise indicated, the following are the responsibilities expected of the Vice President of Business Operations and Finance or designee.

1. Monthly reporting of holdings and transactions occurring in the Fund. This report is to include at least (1) all assets held by the Fund by class/type, book value, approximate market value, income earned, accrued income and (2) all transactions occurring in the Fund during the month.

L. Continuing Education

At least one member of the Valencia Investment Committee is required to complete a minimum of 8 hours of continuing education in subjects or courses of study related to investment practices and products on an annual basis. The required hours can be completed by any member or combination of members, as long as the required number of hours is achieved annually.

II. Externally Managed Funds

A. Scope and General Guidelines

1. This Investment Plan applies to any surplus funds (Fund) managed externally by the Investment Manager retained by Valencia College for the benefit of the District Board of Trustees of Valencia College.
2. Management of the Fund shall be in accordance with Florida Statute 218.415 and State Board of Education rule 6A-14.0765.
3. Subject to the limitations provided above and throughout the Investment Plan, the Investment Manager shall have full discretion in terms of asset mix, security selection and timing of transactions.
4. The President of the College, or his designee, will appoint an Investment Committee to oversee the management of the Investment Plan. The Investment Committee will retain authority to manage the College's portfolio within the stated guidelines in the Plan to provide maximum benefit to the College.

5. The Investment Plan for the College consists of two distinct portfolio management plans, one internally managed and one externally managed. The two Investment Plans are not mutually exclusive of each other.

B. Investment Objectives

The Fund's primary objective is to place the highest priority on the safety of principal and liquidity of funds. A secondary objective is to maximize income (book yield) while providing minimal risk of market value volatility and adequate short-term liquidity to meet any cash flow demands.

C. Performance Measurement

The target benchmark to be used is the Merrill Lynch 1-5 Year U.S. Treasury Index. Recognizing that varying market conditions may affect this medium-term objective, the portfolio should also rank within the top 50 percentile of other fixed-income managers with similar objectives over a market cycle (4 to 7 years).

D. Prudence and Ethical Standards

Investments shall be made in accordance with the "Prudent Person Rule," as contained in Florida Statute 218.415(4), which states that: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence would 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."

E. Authorized Investments

1. Investments shall be limited to fixed income securities selected from the following types:
 - a. U.S. Treasury Bills, Notes, Bonds, and Strips and other obligations whose principal and interest is fully guaranteed by the United States of America or any of its agencies or instrumentalities
 - b. Government Sponsored Enterprises: Federal Farm Credit Bank (FFCB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FBLB), Student Loan Marketing Association (SLMA), Financing Corporation (FICO), The Resolution Funding Corporation (REFCO), Farm Credit System Financial Assistance Corporation, the Federal Housing Finance Board and all other government sponsored agencies and enterprises

- c. Repurchase Agreements: collateralized at 102% by U.S. Treasuries or U.S. government sponsored enterprises
 - d. Certificates of Deposit in state-certified qualified public depositories
 - e. Mortgage-Backed Pass Throughs guaranteed by the U.S. Government or a Federal agency, including securities collateralized by the same
 - f. Asset-Backed Securities: rated "AAA" by either Standard & Poor's or Moody's
 - g. Money Market Instruments: securities rated Tier 1 or the equivalent as a minimum as defined by Standard & Poor's and/or Moody's and all other nationally recognized credit rating organizations at the time of purchase. Included but not limited to commercial paper, time deposits and banker's acceptances.
 - h. Corporate Notes rated "A-/A3" and higher by both Standard & Poor's and Moody's
 - i. Money Market Funds registered with the SEC and invested only in securities as allowed by this policy
 - j. Any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in F.S. 163.01, which maintains a similar investment objective.
 - k. Any investment fund regulated or advised by a Registered Investment Advisor under the Investment Company Act of 1940, Rule 3C7. Such fund investment guidelines must state that "the fund will seek to maintain a \$1 per share net asset value."
2. It should be recognized that certain securities may meet the above definition of an Authorized Investment but their risk characteristics, as created by their structure, may be such that a prudent investor would deem them inappropriate for the Fund. Securities of this type which are prohibited:
- a. Reverse repurchase agreement
 - b. Floating rate securities whose coupon floats inversely to an index or whose coupon is determined based upon more than one index

- c. Tranches of Collateralized Mortgage Obligations (CMO) which receive only the interest or principal from the underlying mortgage securities; commonly referred to as “IO’s” and “PO’s”
- d. Derivatives and other securities whose future coupon may be suspended because of the movement of interest rates or an index. The only exceptions allowed are (1) “plain vanilla” floating rate notes which would have their coupon rate of interest directly linked to a published interest rate index such as LIBOR or U.S. Treasury Bills and (2) other Authorized Investments specifically listed above which, by the most strict interpretation, may be considered a derivative (e.g. AAA-rated Asset-Backed and Mortgage-Backed Securities).

F. Maturity and Liquidity Requirements

The investment portfolio (Fund) shall be constructed in such manner as to provide sufficient liquidity to pay obligations as they come due. To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements. The portfolio will endeavor to maintain an average maturity of 36 months.

G. Portfolio Composition

Recognizing that market value volatility is a function of maturity, the Investment Manager shall maintain the Fund as a short to medium term maturity portfolio. Additionally, it is recognized that proper diversification is considered a prudent investment approach. Specifically, the following restrictions apply in the management and investment of the Fund:

- 1. The maximum average duration of the portfolio shall be no greater than 120% of the target benchmark’s average duration.
 - a. The maturity of debt obligations with a call and/or put option(s) shall be considered the date on which it can be reasonably expected that the bond will be called, put or mature.
 - b. The maturity of mortgage/asset-backed securities shall be considered the date corresponding to its average life. This date reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security’s description.
 - c. The effective maturity of floating rate securities shall be considered the time until the next full reset of the coupon. The

maximum final maturity of a floating rate security shall be five (5) years from the date of purchase.

- d. The maximum effective maturity of an individual security shall be five (5) years from the date of purchase.
 - e. To limit principal fluctuation, no more than 20% shall have an effective maturity greater than three (3) years.
 - f. In order to provide sufficient liquidity and stability of principal, no less than 10% of the Fund shall have an effective maturity of one year or less.
2. A maximum of 5% of the Fund may be invested in securities of any single issuer. In addition, a maximum of 30% of the Fund may be invested in any single industry. U.S. Government, Government Agency and GSE securities are not subject to any limitations.
3. The Fund must maintain a total quality rating of 8.0 or higher on the following scale:
- a. U.S. Government fully guaranteed, or fully Guaranteed by Florida public depository Requirements: 10.0
 - b. Government sponsored enterprises (GSE): 9.0
 - c. "AAA"-rated securities: 8.0
 - d. "AA"-rated securities: 7.0
 - e. "A"-rated securities: 6.0

H. Risk and Diversification

Investments held shall be diversified, in accordance with the guidelines set above, 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 these guidelines shall be reviewed and revised periodically, as deemed necessary by the investment committee.

I. Authorized Investment Institutions and Dealers

The Investment Manager will maintain an approved list of investment institutions and dealers for the purchase and sale of securities. The Investment Manager is responsible for establishing and maintaining the approved list and will make it available to the College upon request.

J. Third-Party Custodial Agreements

1. All securities purchased by the College or by its approved Investment Manager under this Plan shall be properly designated as an asset of the College and held in safe keeping by a third party custodial bank or other third party custodial institution. If a bank or trust company serves in the capacity of Investment Manager, said bank or trust company could also perform required custodial and reporting services.
2. No withdrawal of securities, in whole or in part, shall be made from safekeeping except by those designated within the Investment Management and Custodial Agreement between the Custodian and the College.

K. Master Repurchase Agreement

The Investment Manager will maintain a master repurchase agreement and require all approved institutions and dealers transacting repurchase agreements to adhere to the requirements of the master repurchase agreement.

L. Bid Requirement

The Investment Manager shall execute purchases and sales in a competitive bid environment wherein at least three (3) 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) the security has recently been issued and is trading at the same price by all financial institutions.

M. Internal Controls

The Investment Manager will establish a system of internal controls, which will be documented in writing. The internal controls will be reviewed by the appropriate committee and/or individual(s). The controls will be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of entity.

N. Reporting

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

1. Monthly reporting of holdings and transactions occurring in the Fund. This report is to include at least (1) all assets held by the Fund by

class/type, book value, approximate market value, income earned, accrued income and (2) all transactions occurring in the Fund during the month.

2. Quarterly reporting of the Fund's performance. The Investment Manager will report the Fund's total rate of return, which reflects the true earnings of the Fund and incorporates cash flows, changes in market value and income earned. Calculation of the Fund's total rate of return will comply with the performance measurement standards as defined by the Association of Investment Management and Research (AIMR).

Procedure

History:

Adopted 10-16-07; Formerly 6Hx28:06-05

Date of Last Procedure Review: 10-16-2007