

Procedure Manual



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PURPOSE

The purpose of this Investment Policy Procedure Statement is to establish a clear understanding of the philosophy and the investment objectives for the Broward College (“College”) surplus funds (operating cash, construction funds, and other miscellaneous cash funds). This document will further describe the standards that will be utilized by the College in monitoring investment performance, as well as, serve as a guideline for any investment manager retained. All polices and guidelines within this document must be consistent with Florida Statutes and State Board of Education Rules and college policy and procedure.

PRUDENCE AND ETHICAL STANDARDS

Prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) will be exercised in seeking to attain the investment objectives set forth. UPMIFA requires fiduciaries to apply the standard of prudence “about each asset in the context of the portfolio of investments, as part of an overall investment strategy.” All investment actions and decisions must be based solely on the interests of the College. Fiduciaries must provide full and fair disclosure of all material facts regarding any potential conflicts of interests.

As summarized for the purposes of this Investment Policy Procedure, UPMIFA states the duty to manage the assets as a prudent investor would, in light of the purposes, scope, objectives and other relevant circumstances. This standard requires the exercise of reasonable care, skill, and caution while being applied to investments not in isolation, but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the College. In making and implementing investment decisions, the duty is to diversify the investments unless, under special circumstances, the purposes of the College are better served without diversifying.

In addition, fiduciaries must conform to fundamental fiduciary duties of loyalty and impartiality. This requires acting with prudence in deciding whether and how to delegate authority, in the selection and supervision of agents, and incurring costs where reasonable and appropriate.

RESPONSIBILITY AND AUTHORITY

1. **District Board of Trustees** - retains the ultimate responsibility for the proper supervision of the College investment portfolios. The Board delegates to the President the responsibility to ensure that all investment decisions made for the College are consistent with this policy.
2. **The Controller**– will review and evaluate the investment recommendations presented by the investment consultant. Additional oversight responsibilities include developing operational procedures that address operational, internal control and compliance issues. The Controller will report as requested, or at least annually, the status of the investments.
3. **The President** or his/her designee has the authority to make investments and rebalance the portfolio within the guidelines as described in this policy. Cash of various funds may be pooled to maximize return or reduce expenses. While the President retains authority, certain administrative functions may be delegated to other staff members, subject to review and oversight by the Controller.

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4. **Investment Committee** – act in an advisory role to the President in the management of the investment portfolio.
5. **Investment Consultant** - The investment consultant will assist the Committee and the President in managing and overseeing the investment portfolio. Responsibilities include, but are not limited to:
 - a. Provide proactive recommendations
 - b. Supply reports (e.g., asset allocation studies, investment research and education) or information as reasonably requested
 - c. Provide monitoring, due diligence, and search for investment managers
 - d. Provide quarterly performance reports
 - e. Review this Investment Policy Statement on an annual basis

GENERAL OBJECTIVES

1. The primary investment objectives for the **short-term investment pool** (funds needed for expenditures in one year or less) will be to provide for preservation of capital and liquidity.
2. The primary investment objectives for the **intermediate-term investment pool** (funds needed for expenditures within one to five years) will be preservation of capital and maximization of income without undue exposure to risk within the parameters specified in this investment policy statement.
3. The primary investment objectives for the **long-term investment pool** (funds not expected to be needed as working capital, and are not intermediate-term) will be to provide for long-term growth of principal and income without undue exposure to risk.

ASSET ALLOCATION

(Short-Term Investment Pool)

The short-term investment pool shall be managed by one or more short-term fixed income investment managers, each maintaining a portfolio with an average weighted maturity between one day and one year.

(Intermediate-Term Investment Pool)

The intermediate-term investment pool shall be managed by one or more intermediate-term fixed income investment managers, with each manager maintaining a duration between one year and five years (excluding TIPS or other inflation linked bonds).

(Long-Term Investment Pool)

The long-term investment pool shall be managed by one or more investment managers. Asset allocation will likely be the key determinant of the pool's return over the long-term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly desirable. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of

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asset categories shall be based on the impact to the long-term pool, rather than judging asset categories on a stand alone basis.

The asset allocation will be set with the following target percentages and within the following ranges for the following broad categories of assets:

<u>ASSET CATEGORY</u>	<u>TARGET</u>	<u>RANGE</u>
Global Equity	70%	50 - 90%
Fixed Income	30	10 – 50

1. **Global Equity** – The allocation will consist of public equity-oriented funds managed by external investment firms. This is expected to be the highest risk, highest return asset category. The allocation will be diversified by factors including security, sector, geography, market capitalization, and manager.
2. **Global Fixed Income** – The allocation will consist of bond funds managed by external investment firms. Investment grade bond funds will have a weighted average credit rating of Baa/BBB and above as rated by two nationally accredited rating agencies. . These bonds provide equity risk mitigation and deflation protection to the long-term pool. A portion of the fixed income portfolio may be invested in non-investment grade bond funds with weighted average credit ratio below Baa/BBB.

Notwithstanding anything to the contrary, all investments must comply with Section 215.47 of Florida Statutes and no investment not authorized by such statute shall be made. Responsibility to ensure investments follow Florida Statute rests with the College. In addition, portfolio composition will at all times be commensurate with the nature and size of the public funds within the custody of the College.

TIME HORIZON

Due to the inevitability of short-term market fluctuations, the following Performance Objectives are expected to be achieved by the investment manager(s) over a 5-year moving period, net of investment management fees. Nonetheless, the College reserves the right to evaluate and make any necessary changes regarding the investment manager over a shorter term using the criteria established in the “Evaluation of Investment Manager” section of this statement.

PERFORMANCE OBJECTIVES

The moving 5-year period performance objectives shall be as follows:

1. **Market Benchmark**

- a. The total return for each **short-term fixed income investment manager** shall exceed the rate of return on 3-month U.S. Treasury Bills.

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- b. The total return for each **intermediate-term fixed income manager** shall exceed the total return of the relevant fixed income benchmark (which will vary depending upon the manager). The total return for the Intermediate-Term Investment Pool shall exceed an index composed of the manager benchmarks, weighted in the same proportions as the assets were invested during the time period measured.
- c. The total return for each active **long-term investment manager** shall exceed the total return of the relevant benchmark (which will vary depending upon the manager). Passive managers are expected to replicate the total return of the index.

2. Variability

- a. The standard deviation for each **short-term fixed income investment manager** shall not exceed 1.2 times the standard deviation of 3-month U.S. Treasury Bills.
- b. The standard deviation for each **intermediate-term fixed income investment manager** shall not exceed 1.2 times the standard deviation of the appropriate index (which will vary depending upon the manager).

3. Peer Group Ranking

- a. The total return for each **active fixed income and equity investment manager** shall rank in the top half of the appropriate Universe.

GUIDELINES

- 1. Florida Statutes mandate the development of an “Authorized Investments” list. To comply with state law, therefore, the following are the College’s authorized investments:
 - a. U.S. Treasury Bills, Notes, Bonds, and Strips and other obligations whose principal and interest are backed by the full faith and credit of 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 (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
 - c. Repurchase Agreements: collateralized at 102% by U.S. Treasuries
 - d. Certificates of Deposit in state-certified qualified public depositories
 - e. Mortgage-Backed Pass Thru securities guaranteed by the full faith and credit of the U.S. Government or a Federal agency, including securities collateralized by the same
 - f. Asset-Backed Securities: rated “AAA” by two nationally accredited ratings agencies.
 - g. Money Market Instruments: securities rated “A1/P1” or the equivalent as a minimum as defined by two nationally accredited rating agencies (Tier 1 as defined by 2(a) 7 money market funds) at

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the time of purchase. Included but not limited to commercial paper, time deposits and bankers acceptances. Money market funds should be registered with the SEC.

- h. Corporate notes/bonds: rated “Baa/BBB” or better by two nationally accredited ratings agencies.
- i. Mutual/commingled funds and money market funds.. The weighted average credit quality is to be no less than “AAA” for the short-term investment pool accounts and “BBB” for the intermediate-term investment pool accounts, as defined by two nationally accredited ratings agencies. The long-term investment pool may salon invest in non-investment grade bond and equity funds. State of Florida or National Municipal Bonds, both Tax free and Taxable, rated A or higher by two nationally accredited ratings agencies .
- j. State of Florida or National Municipal Bond Funds/Portfolios with short/intermediate term durations having a weighted average credit quality of A or higher by two nationally accredited ratings agencies .
- k. The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in s. [163.01](#).
- l. 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:
 - i. Reverse repurchase agreement
 - ii. Master repurchase agreement
 - iii. Floating rate securities whose coupon floats inversely to an index or whose coupon is determined based upon more than one index
 - iv. 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”
 - v. 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). Notwithstanding anything to the contrary, all investments must comply with Section 215.47 of the Florida Statutes and no investment not authorized by this statute shall be made.

BID REQUIREMENT

The College will analyze and select one or more optimal types of investments, and competitively bid the security in question when feasible and appropriate. Except as otherwise required by law, the bid deemed to best meet the investment objectives specified in statute must be selected.

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EVALUATION OF INVESTMENT MANAGERS/ AUTHORIZED INVESTMENT INSTITUTIONS

Although there are no strict guidelines that will be utilized in selecting investment management institutions for the College, the criteria below will be considered:

1. The length of time the firm has been in existence.
2. The firm's track record
3. Assets under management
4. Strength of business management and operations
5. The amount of assets the College already has invested with the firm.
6. Organizational stability
7. Retaining key personnel
8. Regulatory actions against the firm, its principals, or employees
9. Adherence to the guidelines and objectives of this Investment Policy Statement
10. Avoiding a significant deviation from their stated style
11. Exceeding the return of the appropriate benchmark
12. Exceeding the median performance of a peer group of managers with similar styles of investing

The investment managers will be reviewed on an ongoing basis and evaluated based upon the following additional criteria:

1. Ability to exceed the performance objectives stated in this Investment Policy Statement after taking into consideration said management fees.
2. Adherence to the philosophy and style which were articulated to the College at, or subsequent to, the time the investment manager was retained.
3. Ability to exceed the performance of other investment managers who adhere to the same or similar style.
4. Continuity of personnel and practices at the firm.

THIRD-PARTY CUSTODIAL AGREEMENTS DISPOSITION OF SECURITIES

All securities purchased or external investment managers used by the College shall allow for proper designation of investments as an asset of the College, and ensure 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.

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.

Every security purchased must be properly earmarked and:

1. If registered with the issuer or its agents, must be immediately placed for safekeeping in a location that protects the College's interest in the security.

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2. If in book entry form, must be held for the credit of the College by a depository chartered by the Federal Government, the state, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Florida s. 658.12, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this state, and must be kept by the depository in an account separate and apart from the assets of the financial institution.
3. If physically issued to the College but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault.

The College may also receive bank trust receipts in return for investment of surplus funds in securities. Any trust receipts received must enumerate the various securities held, together with the specific number of each security held. The actual securities on which the trust receipts are issued may be held by any bank depository chartered by the Federal Government, this state, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Florida s. 658.12, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida.

INTERNAL CONTROLS AND PROCEDURES

The CFO will establish controls and procedures for the management of these assets including but not limited to requirements that the transmission of investment instructions to the custodian be in writing, identification of the parties authorized by the College to transfer assets to/from the custodian, and processes for review of recommendations made by the investment consultant. The controls and procedures will be reviewed by the Committee. The controls and procedures will be designed to avoid losses of invested assets arising from fraud, employee error, or malfeasance by employees and officers of the College.

CONTINUING EDUCATION

The College's Controller must annually complete 8 hours of continuing education in subjects or courses of study related to investment practices and products.

This statement shall be reviewed annually. The investment performance will be reviewed on a quarterly basis and the report will be provided by an independent third party. We recognize the importance of adhering to the philosophy and strategy detailed in the Investment Policy. We agree to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this objective, and therefore, recognize that suggestions regarding appropriate adjustments to the Investment Policy Statement or the manner in which investment performance is reviewed are welcome.

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