

08-09-2011

**CITY OF JACKSONVILLE
INVESTMENT POLICY**

I. Introduction

The following Investment Policy within the context of the City's Investment Ordinance, section 110.203, Jacksonville Ordinance Code, is intended to set forth the framework within which the City's investment activities will be conducted. The Investment Policy establishes parameters for investment activity, which may be further restricted by the Finance Committee, Investment Committee (as established herein) and the Director of Finance, in order of authority. The Investment Policy provides both minimums and maximums to limit risk and ensure a broadly diversified portfolio.

In establishing this Investment Policy, the City Council recognizes the traditional relationship between risk and return and acknowledges that all investments whether they are for one day or years, involve a variety of risks related to maturity, duration, credit, market and other factors. Additionally, a number of types of investments involve intermediaries (counter-parties) whose performance (or failure to perform) may affect the value or liquidity of the underlying investment.

When choosing between alternative investments, staff should structure the portfolio based on an understanding of the variety of risks and the basic principle of diversification (imposed by this policy) on the structure of the portfolio. It is the position of the City that the interest of the citizens of the City of Jacksonville can best be served by actively managing the City funds, through the assumption of a prudent level of risk, in order to achieve a total return commensurate with the level of risk assumed. With adoption of this Investment Policy, the City recognizes that the goal of total return portfolio management is to add economic value to a portfolio under circumstances prevailing from time to time. This may necessitate the sale of securities at a loss in order to reduce portfolio risk (without a material reduction in return) or to achieve a greater overall return (without assuming any material amount of additional risk) that could have been obtained if the original position had been held.

This Investment Policy and the related actions of staff will be guided by the standard of care expected of a "Prudent Person". The Prudent Person Rule states that "Investments should be made with judgment and care, under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment."

The City recognizes that the proper management of an active investment portfolio requires three basic ingredients (time, tools and talent). The investment officer (or investment group) must have the time to actively analyze the market, analyze current and anticipated changes to the market, identify situations which may affect one or more existing holdings or sub-portfolios managed either by staff or Third Party Managers or to suggest appropriate new strategies. In addition to the allocation of reasonable time for this process, it is necessary to provide adequate tools to allow staff to access and understand the market, which changes on an instantaneous basis. It is equally important that the people who are charged with this task have the appropriate background, education and aptitude to address the management of the portfolio on an on-going basis.

To appropriately focus the talents of staff, the Investment Policy provides that the City will consider using a) various pool or mutual fund products, to provide a core or passive base to the active portfolio, and b) Third-Party Managers as an alternative to internal management or to access specialty investment areas. The policy framework has been developed to permit the subsequent consideration (by separate City Council Finance Committee action) of the inclusion of Specialty Risk sub-portfolios which are to be managed by Third-Party Managers. The initial employment of this strategy and Third Party Managers was implemented as of November 1, 2007. These exposures will provide for further diversification of the Aggregate Investment Portfolio while providing correlation and other investment advantages.

II. Scope of Investment Policy

This Investment Policy shall apply to all funds held by the City on behalf of the citizenship of the City of Jacksonville with the exception of:

- A. Pension fund assets.
- B. Funds whose uses are restricted by debt covenants; prior contract; or legal, regulatory or other constraints.

III. Investment Objectives

The following define the objectives, in order of priority, for the investment of the City's funds which are subject to the scope of this Investment Policy:

A. Safety of Capital

To ensure safety of capital by:

1. Establishing minimally acceptable credit ratings and limiting any exception thereto.
2. Limiting the portfolio duration and the duration of individual holdings.
3. Setting maximum exposure by market sector
4. Requiring a minimum investment in a basket of securities either fully guaranteed by the U.S. Government or issued by an Agency or Instrumentality of the U.S. Government.
5. Defining authorized transactions and delegated authority levels.
6. Establishing, maintaining, and monitoring portfolio and manager level compliance guidelines to ensure reasonable diversification of investment assets in several risk areas such as, sector exposure, credit ratings, interest rate risk, and specialty risk categories.

B. Liquidity of Funds

To provide sufficient liquidity at all times in order to fund projected operating expenses.

C. Investment Income

To achieve a rate of return on the aggregate City portfolio of at least 40 basis points (.40%), net of external management fees, over the one to three year Treasury Index, measured quarterly, over a rolling three year period.

IV. Delegation of Authority

A. Investment Committee

1. An Investment Committee, as hereby established, shall report periodically to the City Council's Finance Committee. The Investment Committee will be chaired by the Director of Finance and be comprised of, at a minimum, the Treasurer, Comptroller, Budget Officer, and Chief Investment Officer as voting members. The Council Auditor, or his designee, shall serve as a non-voting member. The Director of Finance shall have the authority to appoint others to the Committee.
2. The Investment Committee shall be charged with:
 - a. Formulating Investment and Asset Allocation Strategies within the framework of this Investment Policy;
 - b. Establishing appropriate investment procedures and controls;
 - c. Establishing rate of return objectives, appropriate benchmarks and performance measurement methodology for each portfolio; and
 - d. Monitoring the risk and performance of each portfolio and the performance of the respective managers.
3. The Investment Committee shall have the authority to set policy which further restricts that established by the City's Investment Policy.
4. Within the scope established by the City's Investment Policy, the Investment Committee shall have the authority to exercise its prudent judgement in its administration of the public's funds.
5. The Investment Committee shall meet at least monthly or more often as deemed appropriate.
6. A summary of investment holdings, performance reports and Investment Committee minutes will be prepared for, and provided to, the City Council's Finance Committee on at least a quarterly basis. The quarterly investment reports provided to the City Council's Finance Committee will be prepared using third party data and will compare the City's investment performance to an index of

similar type investments and also to the investment performance of a peer group. Additionally, monthly investment reports prepared using third party data will be provided to the Investment Committee and such reports will compare the City's investment performance to an index of similar type investments.

7. The Investment Committee shall oversee the City's debt and swap policy as provided for in section 110.203, Jacksonville Ordinance Code.
8. Resolution of matters shall be referred to the City Council's Finance Committee if such matters are outside the scope of, or if a majority of the Investment Committee deems such matter to be outside the scope of, the authority delegated to the Investment Committee.

B. Staff Members

1. The Director of Finance, and/or other staff as may be designated by the Director of Finance, shall have the authority to execute trades and to otherwise conduct business within the scope of the City's Investment Policy.
2. The Director of Finance shall have the authority to further restrict the authority delegated to any staff member.
3. Staff, through the Treasurer, shall report to the Investment Committee with regards to material issues, open items and/or exceptions related to the scope of this Investment Policy and actions taken.
4. Staff shall prepare month-end reports which, at a minimum, include:
 - a. Investment Holdings Reports which shall, at a minimum detail:
 - (1) holdings by class of security;
 - (2) income earned;
 - (3) market value and portfolio reallocations;
 - (4) compliance with the Investment Policy; and
 - (5) compliance by third party managers with their individual parameters
 - b. Performance Measurement Reports for the City's Aggregate Investment Portfolio, as well as for each separate portfolio, sub-portfolio, respective third-party manager and Specialty Risk portfolios, as and if appropriate.
5. The reports which are required under Item 4 above, as well as any others deemed appropriate by the Director of Finance, shall be provided to the members of the Investment Committee no less frequently than monthly.

V. Prudent and Ethical Standards

- A. Those staff members who have been delegated authority to conduct City business under this Investment Policy shall be required to act in accordance with the provisions of the "Prudent Person Rule", as is defined on page 1 herein, as well as in the compliance with the City's Ethics Policy as recited in the City of Jacksonville's Ethics Manual.
- B. Each employee, authorized to conduct investment activities for the City, is deemed by the City Council, through adoption of this Investment Policy and any amendment hereto, to be performing within the course and scope of his or her employment and acting prudently, without speculation, and in the best interest of the City provided that such employee, when conducting investment activities for the City, does so a) in light of the circumstances then prevailing, b) in accordance with the provisions herein and c) consistent with and in furtherance of his or her fiduciary obligations.

VI. Portfolio Management

- A. Aggregate Investment Portfolio
 - 1. The Aggregate Investment Portfolio shall be actively managed on a total return basis consistent with the directives and objectives established by this Investment Policy.
 - 2. All calculations and measures of compliance and performance shall be based upon the market value of individual securities and portfolios, with position limits being measured against the prior fiscal year's average month end balance. Market value shall be defined as the bid price, plus accrued interest to date, which the City could reasonably expect to obtain in a transaction with a willing buyer. Assets classified in multiple categories below, shall count toward each of the respective category limitations. Investments in (e), (f), (g), (h), (i) and (k) listed below will be Externally Managed and will require the prior approval of the Investment Committee and the City Council's Finance Committee. The Aggregate Investment Portfolio shall be invested within the following parameters:
 - a. The average duration shall not exceed 5.0 years nor shall it be less than 0.75 years. As a measure of interest rate sensitivity of individual securities and of the portfolio(s), the calculation methodology to be used will be the "effective" duration. This calculation provides for the use of supportable assumptions related to the unique cash flows of each security.
 - b. No less than 15% of the Aggregate Portfolio shall be invested in a combination of U.S. Government and Agency Debt Obligations and in securities issued by U.S. Government Instrumentality Debt Obligations, as each term is defined in Section IX B. Of this 15%, no less than 7.5% of the Aggregate Investment Portfolio shall be invested in U.S. Government and Agency Debt Obligations.

- c. No more than 35% of the Aggregate Investment Portfolio shall be invested in Mortgage Backed Securities.
 - d. No more than 7.5% of the Aggregate Investment Portfolio shall be invested in Asset Backed Securities.
 - e. No more than 27.5% of the Aggregate Portfolio shall be separately managed as Specialty Risk Externally Managed Funds, requiring specific Investment Committee and City Council's Finance Committee approval (Section IX.J.2.).
 - f. No more than 9% of the Aggregate Portfolio shall be invested in securities with a long-term debt rating below Investment Grade, specifically below the following ratings for two of the three rating agencies: Baa3 by Moody's, BBB- by S&P and/or BBB- by Fitch.
 - g. No more than 7.5% of the Aggregate Portfolio shall be invested in International developed market securities denominated in non-U.S. currency.
 - h. No more than 5% of the Aggregate Investment Portfolio shall be invested in Emerging Market securities denominated in non-U.S. currency.
 - i. No more than 5% of the Aggregate Investment Portfolio shall be invested in non-U.S. dollar, non-hedged securities.
 - j. Investment in non-U.S. securities with a rating below the following, by two of the three rating agencies, shall be prohibited: Ba by Moody's, BB by S&P, and/or BB by Fitch.
 - k. No more than 7.5% of the Aggregate Portfolio shall be invested in securities with a duration over 8.5 years.
3. Policy Exception: Deviations from the limits defined in items 2(b) through 2(g) and 2 (k) above shall be permitted if:
- a. The policy exception results from the receipt and reinvestment of interest or from substantive changes in market value; and
 - b. The portfolio is re-balanced and compliance is reestablished no less frequently than 30 days following each fiscal quarter end.
 - c. Within the confines of prompt re-establishment of compliance, as stated in item 3(b) above, investment managers will seek best execution in an effort to minimize trading and market impact costs where possible.

4. Authority to Grant Exception(s) to policy limits.

A Third Party Manager may hold securities which are outside of these policy guidelines or the Third Party Manager's specific investment guidelines separately approved by City Council, subject to conditions only as follows:

- In aggregate, the value of all securities, which constitute a variance to this policy, shall not exceed 2% of the Aggregate Investment Portfolio;
- The investment represents no more than 4% of a manager's portfolio and the overall investment in the security across all managers' portfolios does not exceed 2% of the Aggregate Investment Portfolio;
- Immediate notification shall be provided to the City's CFO of the type and magnitude of such variance to policy;
- The Treasury staff shall meet with the CFO to discuss the proposed variance. After such consideration with the Treasury staff, if the CFO determines that a variance request has merit, the CFO will prepare a write up fully describing the variance and recommended investment strategy regarding such variance within five (5) business days of receipt of the variance request and forward same to the Investment Committee;
- Within two (2) business days of receipt of the recommendation by the CFO to grant an exception to the Investment Policy, the Investment Committee will meet to discuss the proposed policy variance. If the Investment Committee recommends the approval of the proposed policy variance, the proposed variance will be sent to the Mayor. The Mayor must approve the proposed policy variance within five (5) business days of receipt in order for the variance to be approved.
- Written acknowledgement to the managers shall be sent by the CFO granting such exception to the Investment Policy, which shall include the following:

Defined enhanced reporting requirements for the manager regarding the specific investment holding which is an exception to Policy, including:

Impact to the liquidity of the holding and portfolio managed, and

Impact to the return on the portfolio managed under the expected outcome and under the worst case scenario, and

Updates on the status of each security which is subject to a policy exception shall be presented by the portfolio manager to the CFO at least monthly.

- Exceptions to the Investment Policy previously granted shall be reported to the City Council's Finance Committee, when authorized and/or if continuing to exist, must be updated as part of the normal Quarterly Report.

5. The Aggregate Investment Portfolio shall be managed in such a manner that compliance with the requirements of items 2 (b) through 2 (k) shall be maintained. Each Third Party Manager will report on their individual portfolio characteristics, which will be reviewed by City staff on a monthly basis.

B. Portfolio Calculation

1. Since the City Aggregate Portfolio fluctuates in value as property taxes are received and subsequently depleted to fund operations, there is a need to establish a Normal (or average base) Portfolio Balance against which the various minimum/maximum limits can be measured. By no later than October 30 of each year, the Chief Financial Officer (CFO) will establish the Normal Portfolio Balance to be used in measuring compliance with the minimum/maximum limits established in this policy and the Normal Portfolio Balance as established will remain in effect until the following October. The Normal Portfolio Balance will be the average of the month-end portfolio for each month of the fiscal year end just completed.
2. Should a significant event or series of events occur which would cause a need to reduce the Normal Portfolio Balance, the CFO, with the concurrence of the Investment Committee and the Council Auditor, may reduce the Normal Portfolio Balance accordingly. If such an event were to occur, the CFO will notify both the Council President and the Finance Chair within a week of the action, providing an explanation of the reasoning for the change.

VII. Asset Allocation Directives

The portfolio shall be invested only in those instruments specifically designated as Authorized Investment Instruments. Within the exposure limits set for each instrument, the Investment Committee or staff shall have the authority to weight the portfolio(s) as to its type or duration as deems appropriate. Exposure percentages shall be based upon market value and shall include cash, investments managed by the City's staff and investments managed by outside managers. Staff shall maintain a schedule, on a manager and portfolio basis, to help ensure compliance with Investment Policy constraints. Securities held under a repurchase agreement and the specific assets underlying a mutual fund shall not be included when determining compliance with the exposure limits to a particular asset type, except as noted below, though compliance with exposure limits to repurchase agreements and/or mutual funds as an asset type must be maintained. Mutual funds invested substantially in U.S. Treasuries may be used to meet the minimum requirement for investment in Treasury securities.

VIII. Authorized Transactions

Staff shall have the authority to execute trades on Authorized Investment Instruments in any of the following forms:

A. Cash Settlement

An agreement which obligates the City to buy or sell on the same day as the trade is executed.

B. Regular Settlement

An agreement which obligates the City to buy or sell on a date, other than the trade date, which is normal and customary for the specific security.

C. Short Sales

An agreement which obligates the City to sell a security which is not currently held in its portfolio. The following shall apply to short sales:

1. Short sales are authorized only on Treasury Securities which are otherwise Authorized Investment Instruments.
2. The transaction must settle in no more than 5 business days from the trade date.
3. Short positions must be identifiable as a hedge position against a particular holding, group of holdings or portfolio whose characteristics are effectively, though not necessarily perfectly, hedged by the short position.

D. Futures Contract

An agreement which obligates the City to either buy or sell the underlying security on a specified date, or within a specified time, in the future. Long and short futures positions are authorized. The following shall apply to Futures Contracts:

1. The Futures Contract must be traded on a recognized exchange; and
2. The Futures Contract must be for a term not to exceed 12 months; and either
 - a. The Futures Contract must be on a cash security which is otherwise an Authorized Investment Instrument; or
 - b. The Futures Contract must be on an interest rate index to which exposure could otherwise be achieved through the purchase of an Authorized Investment Instrument or by an Authorized Transaction; and
3. Short positions must be identifiable as a hedge position against a particular holding, group of holdings or portfolio whose characteristics are effectively, though not necessarily perfectly, hedged by the short position.

E. Forward Agreements

An agreement, including those on "When-Issued" (WI) Treasuries, and "To Be Announced" (TBA) Mortgage Backed Securities, which obligates the City to either buy or

sell the underlying security on a specified date, or within a specified time, in the future to a counterparty. Long and short positions are authorized. The following shall apply to Forward Agreements:

1. The counterparty must be an Approved Broker; and
2. The Forward Agreement cannot exceed six months; and either
 - a. The Forward Agreement must be on a cash security which is otherwise an Authorized Investment Instrument; or
 - b. The Forward Agreement must be on an interest rate index to which exposure could otherwise be achieved through the purchase of an Authorized Investment Instrument or Authorized Transaction; and
3. Short positions must be identifiable as a hedge position against a particular holding, group of holdings or portfolio whose characteristics are effectively, though not necessarily perfectly, hedged by the short position.

F. Interest Rate Swap Agreements

An agreement between the City and a counterparty to pay/receive a fixed interest rate payment in exchange for variable rate payment over a specified term. The following shall apply to Interest Rate Swap Agreements:

1. The counterparty must be an Approved Broker; and
2. The Swap Agreement cannot exceed three years without the prior approval of the City Council; and
3. The spread between the fixed and floating rate shall not be less than 50 basis points for a fixed to floating rate swap or for a floating to fixed rate swap without approval of the Finance Committee of the City Council; and
4. The Swap Agreement must be on an interest rate index to which exposure could otherwise be achieved through the purchase of an Authorized Investment Instrument or Authorized Transaction; and
5. Swap positions must alter the interest rate exposure to a particular holding, group of holdings or portfolio.

G. Option Contracts

An agreement which gives the City the right, though not the obligation (a long option position) to buy (call) or sell (put) the underlying security; or an agreement which obligates the City, at the option of the counterparty, (a short option position) to buy (put) or sell (call) the underlying security. The following shall apply to Option Contracts:

1. The Option Contract must be traded on a recognized exchange; and

2. The Option Contract must be for a term not to exceed 12 months; and either
 - a. The Option Contract must be on a cash security which is otherwise an Authorized Investment Instrument; or
 - b. The Option Contract must be on a futures contract which is otherwise an Authorized Transaction; or
 - c. The Option Contract must be on an interest rate index to which exposure could otherwise be achieved through the purchase of an Authorized Investment Instrument or Authorized Transaction; and
3. Short call positions must be identifiable as written against a particular holding, group of holdings or portfolio whose characteristics are substantially similar to the position against which it is written.

IX. Authorized Investment Instruments

The following classes of securities are deemed suitable for investment by the City. The securities listed below may be purchased up to the limits and subject to standards defined for each asset type.

A. U.S. Government and Agency Debt Obligations

Definition: Debt obligations of the U.S. Government or its agencies whose interest payment and principal repayment is backed by the full faith and credit of the U.S. Government.

Duration: A maximum of 8.50 years.

Exposure: No less than 7.5% and no more than 100% of the Aggregate Investment Portfolio shall be invested in this sector.

B. U.S. Government Instrumentality Debt Obligations

Definition: Securities issued and guaranteed by a federally sponsored corporation which are backed, or the entity is capable of borrowing from, the U.S. Treasury. These securities carry the "implied guarantee" of the U.S. Government.

Duration: A maximum of 5.00 years.

- Exposure:**
1. No more than 45% of the Aggregate Investment Portfolio shall be invested in this sector.
 2. No more than 20% of the Aggregate Investment Portfolio shall be invested with any one issuer.

C. High Grade Corporate Debt

Definition: U.S. dollar denominated debt obligations of domestic or foreign corporations, or foreign sovereignties issued in the United States or in foreign markets. This shall include, but not be limited to, corporate notes and bonds, medium term notes, Eurodollar notes and bonds, Yankee notes and bonds, bankers' acceptances, commercial paper and certain asset backed securities.

Duration: A maximum of 5.00 years.

Credit Rating: 1. Securities maturing in more than one year shall have a long-term debt rating which meet the following criteria:

- a. The security must be rated by two nationally recognized credit rating agencies, one of which must be either Moody's, S&P or Fitch; and
- b. The security must be rated, at a minimum, Investment Grade, specifically at or above Baa3 by Moody's, BBB- by S&P, or BBB- by Fitch or, if not rated such by two of these three, an equivalent minimum rating by a nationally recognized rating agency.

2. Securities maturing in one year or less shall have a short-term debt rating which meet the following criteria:

- a. The security must be rated by either Moody's, S&P or Fitch; and
- b. The security must be rated, at a minimum, P1 by Moody's, A1 by S&P or F1 by Fitch or, if the required short-term debt rating is unavailable; then
- c. The security must otherwise meet the criteria in this Section C under Credit Rating, Item 1 for High Grade Corporate Debt maturing in one year or more.

3. No more than 10% of the Aggregate Portfolio shall be invested in Rule 144a securities, of which 7.5% must be issued with registration rights.

Exposure: 1. No more than 60% of the Aggregate Investment Portfolio shall be invested in this sector; with

2. No more than 40% of the Aggregate Investment Portfolio shall be invested in securities with a duration greater than 1 year; and

3. No more than 5% of the Aggregate Investment Portfolio shall be invested with any one issuer.

D. Mortgage-Backed Securities

Definition: Securities collateralized by mortgages (or deeds of trust) on residential property (“Residential Mortgage-Backed Securities”) or commercial (industrial, office, retail, etc.) property (“Commercial Mortgaged-Backed Securities”). The securities may be issued by a Federal Instrumentality or by a private corporation and may be structured as collateralized mortgage obligations or unstructured pass-through securities.

Duration: A maximum of 5.00 years, based upon a reasonable and supportable prepayment assumption, is authorized by this policy.

Credit Rating:

1. The security must be rated by two nationally recognized credit rating agencies, one of whom must be either Moody's, S&P or Fitch; and
2. The security must be rated, at a minimum, Aa3 by Moody's, AA- by S&P, or AA- by Fitch or, if not rated such by two of these three, an equivalent minimum rating by a nationally recognized rating agency.

Exposure:

1. No more than 35% of the Aggregate Investment Portfolio shall be invested in this sector; with
2. No more than 20% of the Aggregate Investment Portfolio may be invested in securities of a single Federal Instrumentality of the United States.
3. No more than 15% of the Aggregate Investment Portfolio shall be invested in Commercial Mortgage Backed Securities.
4. No more than 10% of the Aggregate Investment Portfolio shall be invested in securities of any one (non-Instrumentality) issuer.

E. Asset Backed Securities

Definition: A security with collateral backing such as auto loans, farm and truck equipment loans, credit card loans, and manufactured housing loans. Asset-Backed Securities shall not be collateralized by mortgages or home improvement loans.

Duration: A maximum of 5.00 years

Credit Rating: The security must be rated, at a minimum, Aa3 by Moody's, AA- by S&P, or AA- by Fitch or, if not rated such by two of these three, an equivalent minimum rating by a nationally recognized rating agency.

- Exposure:
1. No more than 7.5% of the Aggregate Investment Portfolio shall be invested in this sector; with
 2. No more than 0.5% of the Aggregate Investment Portfolio shall be invested in securities of any one issuer.

F. Bank Certificates of Deposit

Definition: Deposits in interest bearing accounts at institutions approved as Qualified Public Depositories under applicable law.

Duration: A maximum of 1.00 year.

Credit Rating: Credit quality will be subject to approval by Investment Committee.

- Exposure:
1. No more than 20% of the Aggregate Investment Portfolio shall be invested in this sector; with
 2. No more than 5% of the Aggregate Investment Portfolio shall be invested in securities of any one issuer.

G. Repurchase Agreements

Definition: Transactions in which the City purchases Approved Securities from an institution with an agreement to re-sell the same securities on a specified future date. Institutions who are a party to this transaction must:

1. Be approved by the Investment Committee; and
2. Have entered into a Master Repurchase Agreement; and
3. Have entered into a Tri-Party Custody Agreement which provides for a third party to take custody of the securities subject to the Master Repurchase Agreement.

Transaction

Terms: Shall adhere, at a minimum, to the requirements of the Master Repurchase Agreement.

Approved Securities:

Shall be limited to Direct Obligations of the U.S. Government or its Instrumentalities with maturities not in excess of 5 years.

Collateral

Valuation: Collateral shall be marked-to-market daily at no less than 102% of the security's market value

Maturity:

The term of the Repurchase Transaction shall not exceed 60 days.

- Exposure:
1. No more than 20% of the Aggregate Investment Portfolio shall be invested in this sector; with
 2. No more than 10% of the Aggregate Investment Portfolio shall be invested with any single counterparty.

H. Money Market Mutual/Trust Funds

Definition: A mutual or trust fund which meets the Securities and Exchange Commission definition of a money market fund and whose investment policies are otherwise in substantial compliance with the City's Investment Policy; as substantial compliance is determined by the Investment Committee. Investment in money market funds (including 2a-7 like funds) offered or sponsored by the State Board of Administration and the Florida League of Cities are specifically approved for investment of City funds.

Duration: Funds must provide daily liquidity.

Credit Rating: The Investment Committee shall have the authority to determine the credit-worthiness of a particular Money Market Mutual/Trust Fund.

- Exposure:
1. No more than 40% of the Aggregate Investment Portfolio shall be invested in this sector; with
 2. No more than 15% of the Aggregate Investment Portfolio shall be invested in any one particular fund.

I. State and Local Taxable and/or Tax Exempt Debt

Definition: General Obligation or Revenue debt obligations issued by states, counties, cities or other taxing authorities.

Duration: A maximum of 5.00 years.

- Credit Rating:
1. The security must be rated by two nationally recognized credit rating agencies, one of whom must be either Moody's, S&P or Fitch; and
 2. The security must be rated, at a minimum, A3 by Moody's, A- by S&P, or A- by Fitch or, if not rated such by two of these three, an equivalent minimum rating by a nationally recognized rating agency.

- Exposure:
1. No more than 10% of the Aggregate Investment Portfolio shall be invested in this sector; with
 2. No more than 5% of the Aggregate Investment Portfolio shall be invested in securities of any one issuer.

J. Fixed Income Mutual Funds

Definition: A mutual fund whose investment guidelines are otherwise in substantial compliance with this Investment Policy, as substantial compliance is determined by the Investment Committee. Investments in mutual funds sponsored by the Florida League of Cities or the Florida Association of Counties are specifically approved for investment of City funds.

Duration: 1. Funds must provide liquidity no less frequently than monthly.
2. The average duration of the underlying investments must be in substantial compliance with this Policy.

Credit Rating: The Investment Committee shall have the authority to determine the credit-worthiness of a particular fund.

Exposure: 1. No more than 85% of the Aggregate Investment Portfolio shall be invested in this sector; with
2. No more than 20% of the Aggregate Investment Portfolio shall be invested in any one particular fund.

K. Other Externally Managed Funds

Definition: Separate and/or co-mingled investment funds managed by a third party.

1. The Investment Committee shall have the authority to authorize management by a third-party manager if, in the judgement of the Investment Committee, the investment objectives and style of the manager is substantially in compliance with this Investment Policy.
2. City Council's Finance Committee approval shall be required prior to engaging a third-party manager to invest in the following "Specialty Risk" categories:
 - a. Corporate securities with a long-term debt rating below Investment Grade, specifically below the following ratings for two of the following three rating agencies: Baa3 by Moody's, BBB- by S&P or BBB- by Fitch.
 - b. Investment Grade debt issued in currency other than the U.S. dollar.
 - c. Debt issued in Emerging Markets segment of the Non-U.S. Market.
 - d. Treasury and corporate debt with a duration greater than 8.5 years.

- e. Other investment instruments or strategies, which may be contemplated in the future, which are currently outside the scope of this Investment Policy.

Duration: As provided for in each Third Party Manager's specific investment guidelines separately approved by the Investment Committee and the City Council's Finance Committee.

Credit Rating: As provided for in each Third Party Manager's specific investment guidelines separately approved by Mayor's Finance Committee and the City Council's Finance Committee.

- Exposure:
1. No more than 27.5% of the Aggregate Investment Portfolio shall be invested in Specialty Risk categories.
 2. No more than 7.5% (or 5% for Emerging Markets and 9% for Below Investment Grade) of the Aggregate Investment Portfolio shall be invested in any one particular risk category.
 3. Fully hedged, non-dollar denominated holdings, shall be equated to dollar equivalent securities.
 4. Investment in non-US securities with a credit rating below the following, by two of the three rating agencies, shall be prohibited: Ba by Moody's, BB by S&P, and/or BB by Fitch.
 5. Investments in Frontier Markets are prohibited.

L. Derivative Securities

Definition: "A financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or index or asset values."

Authorization:

1. Staff shall have the authority to invest, either individually or in combination, in the following types of derivative structures on securities which are otherwise an Approved Investment Instrument:
 - a. Floating interest rate - no cap or floor
 - b. Floating interest rate - with a cap and/or a floor
 - c. Call feature
 - d. Put feature

- e. Step Interest Rate
 - f. Principal Strips
2. The City Council's Finance Committee shall have the authority to authorize investment in other derivative structures on Authorized Investment Instruments as deemed appropriate.

X. Reverse Repurchase Agreements

Definition: Transactions in which the City sells Authorized Investment Instruments to an institution with an agreement to repurchase the same securities on a specified future date.

Staff is authorized to enter into reverse repurchase agreements, as it deems necessary and subject to the limitations defined herein, in order to finance short-term cash flow needs or to provide liquidity for the Aggregate Investment Portfolio.

Authorized Counterparty: Institutions who are a party to this transaction must:

- 1. Be approved by the Investment Committee; and
- 2. Have entered into a Master Repurchase Agreement; and
- 3. Have entered into a Tri-Party Custody Agreement which provides for a third party to take custody of the securities subject to the Master Repurchase Agreement.

Approved Securities: Any securities held by the City which may be acceptable to the counterparty.

Collateral Valuation: Collateral shall be marked-to-market as often as reasonably required by the counterparty.

Collateral Maintenance: Investment Committee shall have the authority to set maximum amount of collateral to be pledged based upon the nature of the counterparty and the form of the collateral.

Maturity: The term of the Reverse Repurchase Transaction shall not exceed 60 days and the maturity date of the reinvested proceeds shall not materially exceed the maturity date of the Reverse Repurchase transaction.

Exposure: No more than 20% of the Aggregate Investment Portfolio, net of the balance of all existing and pending reverse repurchase agreements, shall be leveraged with reverse repurchase agreements.

XI. Approved Broker/Dealers and Financial Intermediaries

A. Security Purchases and Sales

1. Except for Externally Managed funds, security purchases and sales shall be transacted through the following approved entities:
 - a. Institutions designated as "Primary Securities Dealers" by the Federal Reserve Bank of New York;
 - b. Federal or state insured financial institutions who are designated as Qualified Public Depositories by the State of Florida and who operate a branch or office within the City of Jacksonville; or
 - c. Regional or local broker/dealers approved by the Investment Committee as it deems appropriate.
2. Of those Broker/Dealers who are eligible to be approved, the Investment Committee shall have the authority to select those with whom transactions are authorized as well as the number of approved Broker/Dealers necessary to conduct City business.
3. External Managers are charged with the responsibility to transact purchases and sales on a best execution basis.

B. Repurchase and Reverse Repurchase Agreements

The City shall enter into repurchase and reverse repurchase agreements with the following approved entities:

1. Institutions designated as "Primary Securities Dealers" by the Federal Reserve Bank of New York.
2. The City's primary correspondent bank.

The Investment Committee may approve other institutions who meet specific requirements as developed by the Investment Committee from time to time.

XII. Bid Requirements

Securities, identified by staff as candidates for purchase or sale, shall, when feasible and appropriate, be competitively bid or offered. External Managers will use a form of "bid process" when feasible and appropriate to achieve best execution.

XIII. Internal Control Directives

The Investment Committee shall establish the following minimum level of internal controls for the investment operations of the City in order to prevent losses of funds due to fraud, employee error, and misrepresentation by third parties, or imprudent actions by City employees:

A. Responsibility

The Director of Finance shall hold primary responsibility for assuring compliance with the City's Investment Policy.

B. Delegation of Responsibility

The Director of Finance shall have the authority to delegate to competent staff those responsibilities as deemed appropriate, but such delegation shall accomplish, at a minimum, the following separation of responsibilities:

1. Authority to execute trades and accounting for trades.
2. Accounting for trades and check or wire transfer authority.
3. Check and wire transfer authority from bank and custodial account reconciliation responsibility.
4. Preparation of performance reports from authority to execute trades.

C. Internal Control Manual

The Director of Finance or designee shall maintain an Internal Control Manual for the Investment function. Upon the occurrence of an Investment Policy change, appropriate revisions to the Manual shall be prepared and submitted, within 45 days of the effective date of the policy change, for approval by the Investment Committee. Furthermore, the Internal Control Manual, including previously approved modifications and any newly recommended procedural changes, shall be re-submitted to the Investment Committee for ratification at least annually.

D. The Internal Control Manual for the investment functions shall be reviewed by the City's external auditor at least annually.

E. Operational Procedure Manual

The Director of Finance or designee shall maintain an Operational Procedure Manual for the Investment function. Upon the occurrence of an Investment Policy change, appropriate revisions to the Manual shall be prepared and submitted to Investment Committee for approval within 30 days of the effective date of the policy change. Furthermore, the Procedure Manual, including previously approved modifications and any newly recommended procedural changes, shall be re-submitted to the Investment Committee for ratification at least annually.

F. Transaction Settlement

All investment transactions executed by the City, except those authorized by the Director of Finance or the Treasurer as further approved by the Mayor, shall be settled on a Delivery vs. Payment basis through the City's custodian. Any securities settled under the exception

above shall be secured or controlled by a written agreement approved by the Office of General Counsel

G. Third-Party Custodial Agreement

The custodial relationship shall be governed by a written agreement properly executed by all parties and shall specify, at a minimum that:

1. All securities owned and cash held by the City shall be held in the City's, or its nominee's, name in an account separate from all other accounts maintained by the custodian and shall at all times, while in the custody of the Custodian, be designated as an asset of the City.
2. The custodian shall accept transaction instructions only from those persons who have been duly authorized by the Director of Finance and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be permitted unless directed by such a duly authorized person.
3. The custodian shall, as it pertains to all transactions settled by the custodian, ensure that the City receives good and marketable title to all securities purchased and has immediately available cash for all securities sold on a "delivery vs. payment" basis.

XIV. Continuing Education

A minimum of eight hours of continuing education shall be completed during each fiscal year by the staff member(s) directly responsible for directing the investment decisions pertaining to those funds subject to the scope of this policy. The Director of Finance shall determine the nature of the continuing education that shall satisfy this Section as well as the staff member(s), who are subject to this requirement.

XV. Investment Policy Statement Review and Modification

The City's Investment Policy will be submitted by the Investment Committee for ratification by City Council within 120 days of each fiscal year end.

The authority to effect any change, modification or amendment of this Investment Policy shall rest solely with City Council. The Investment Committee and staff may submit recommendations for policy changes in conjunction with the annual ratification or more often as deemed necessary. Policy changes will become effective on the date stipulated by City Council.

XVI. Effective Date

The City's Investment Policy was ratified and approved, as revised, by City Council on this 9th day of August, 2011.