

Policy: Investment Policy

Issuing Dept: Finance

Effective Date: January 7, 2010

Approved By:



Linda Watson
Chief Executive Officer

SCOPE

To document the investment policy which applies to the investment and reporting of all financial assets, ("LYNX Funds") of the Central Florida Regional Transportation Authority ("LYNX" or "Authority"), except for LYNX's retirement funds. The assets may be in the form of operating funds or bond proceeds funds. However, bond proceeds may be further limited or expanded as to their permitted investments by their respective bond resolutions or covenants.

AUTHORITY:

Board of Directors and Section 218.415, Florida Statutes

POLICY

Rule 11: INVESTMENT POLICY

11.1 Definitions

In addition to the other terms defined in this Rule, the following terms are provided.

11.1.1 **Bank Trust Receipts**: Advance deposits to cover a prospective liability for services to be rendered and/or disbursements to be made; and composite amounts consisting of trust and business monies.

11.1.2 **Book Entry Form**: A chronological record of a specialist's inventory of securities and orders that other exchange members have placed with the specialist.

11.1.3 **Closed-End Management Company**: A closed-end investment company issues a fixed number of shares to the public in an initial public offering, after which time shares in the fund are bought and sold on a stock exchange, and they are not obligated to issue new shares or redeem outstanding shares as open-end funds are.

11.1.4 **Commercial Paper**: An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory. Maturities typically range from 2 to 270 days

11.1.5 **Derivative**: A financial instrument whose characteristics and value depends upon the characteristics and value of an underlying security; typically a commodity, bond, equity or currency. Examples of derivatives include futures and options. Advanced investors sometimes purchase or sell derivatives to manage the risk associated with the underlying security, to protect against fluctuations in value, or to profit from periods of inactivity or decline. These techniques can be quite complicated and quite risky.

11.1.6 **Energy**: Means natural gas, heating oil, propane, diesel fuel, bio-diesel fuel, and any other energy source except electricity used in LYNX operations.

11.1.7 **Forward Pricing Mechanism**: Means a contract or financial instrument that obligates LYNX to buy or sell a specified quantity of energy at a future date at a set price.

11.1.8 **Fair Market Value**: The price that an interested but not desperate buyer would be willing to pay and an interested but not desperate seller would be willing to accept on the open market assuming a reasonable period of time for an agreement to arise.

11.1.9 **Federal Deposit Insurance Corporation**: A federal agency that insures deposits in member banks and thrifts currently up to \$250,000 per deposit.

11.1.10 **Federal Farm Credit Bank (FFCB)**: The Federal Farm Credit Banks Funding Corporation issues debt securities as fiscal agent for the Farm Credit System, which is a nationwide network of borrower-owned lending institutions and service organizations specializing in agricultural and rural America. The mission of this government-sponsored enterprise is to ensure the availability of sound, dependable funding for agricultural producers, cooperatives and certain farm related business.

11.1.11 **Federal Home Loan Bank (FHLB)**: Government sponsored wholesale banks that lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLB is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

11.1.12 **Federal Home Loan Mortgage Corporation (FHLMC)**: FHLMC, commonly referred to as Freddie Mac, is a government sponsored enterprise that provides liquidity to the mortgage markets, much like FNMA and FHLB.

11.1.13 **Federal National Mortgage Association (FNMA)**: FNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The Corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

11.1.14 **Internal Controls**: Policies and procedures designed to provide reasonable assurance that specific entity objectives will be achieved. It consists of: the control environment, risk assessment, control activities, information and communications, and monitoring.

11.1.15 **Liquidity**: the ability of an asset to be converted into cash quickly and without any selling of the asset below its normal price.

11.1.16 **Market Value**: The price at which a security is trading and could presumably be purchased or sold.

11.1.17 **Open-End Management Company**: An investment company that sells mutual funds to the public, issuing and redeeming shares on demand.

11.1.18 **Qualified Public Depository**: Any bank, savings bank, or savings association that is organized under the laws of the United States or the State of Florida; has its principal place of business or a branch office to receive deposits in Florida; has deposit insurance under the provisions of the Federal Deposit Insurance Act; meets the requirements of Chapter 280, Florida Statutes (Florida Security for Public Deposits Act); and has been designated by the Chief Financial Officer of the State of Florida as a qualified public depository.

11.1.19 **Repurchase Agreement**: A contract in which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price. Also known as repo or buyback.

11.1.20 **Return on Investment (ROI)**: measures how effectively the portfolio's principal is invested to generate profit. The higher the ROI, the better.

11.1.21 **Risk**: The quantifiable likelihood of loss or less-than-expected returns. There are many different types of risk e.g., inflation risk (decrease in purchasing power); currency risk (devaluation of currency to the American dollar or visa versa); market risk (decline of the asset's value due to economic changes which effect the entire market) or unsystematic risk (price change in relation to a specific security).

11.1.22 **Safekeeping**: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the banks' vaults for protection.

11.1.23 **Securities Investors Protection Corporation**: A non-profit membership corporation established by Congress which insures securities and cash in customer accounts up to \$500,000 (up to \$100,000 on cash) in the event of brokerage bankruptcy. The SIPC is funded by all of its member securities broker/dealers. While it insures the account in the event that a brokerage runs out of funds to cover its claims, it does not insure against investment losses.

11.1.24 **Specialist**: A stock exchange member who makes a market for certain exchange-traded securities, maintaining an inventory of those securities and standing ready to buy and sell shares as necessary to maintain an orderly market for those shares. This can be an individual, partnership, corporation or group of firms.

11.1.25 **Yield:** The rate of annual income return on an investment, expressed as a percentage. (1) Income yield is obtained by dividing the current dollar income by the current market price for the security. (2) Net yield or yield to maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

11.2 Investment Objectives

Preservation of principal and safety - An important objective of this investment program is the preservation of the principal of those funds within the portfolio. Investment transactions shall be consistent with the other investment objectives, and seek to ensure that capital losses are minimized, whether they be from securities defaults or erosion of market value.

Liquidity - The portfolio shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner.

Return on investment - All investments will be made striving to maximize portfolio return, consistent with the quality, safety and liquidity restrictions. Yield shall be the primary source of investment returns. The pursuit of this goal will be continuous, but may not do so at the expense of assuming avoidable investment risk. The optimization of investment returns shall be secondary to the requirements for quality, safety and liquidity.

11.3 Risk and Diversification

Adequate diversification of LYNX's portfolio will be necessary to minimize market volatility risk, liquidity risk and default risk. Diversification will come in the form of investing in different security types, and in different financial institutions. It is the policy of LYNX to diversify its investment portfolios so as to protect against issuer defaults, market price changes, technical complications leading to temporary lack of liquidity, or other risks resulting from an over concentration of assets in a specific maturity, a specific issuer, a specific geographical distribution, or a specific class of securities. The following strategies, as determined by the Chief Executive Officer, will be reviewed periodically by the Board or any committee so established by the Board.

Maintenance of public trust - All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might reasonably impair public confidence in the ability of LYNX to effectively implement the investment program.

Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism worthy of the public trust.

Asset liability management - To the extent consistent with the investment objectives and restrictions and the Authority's debt management policies, all herein adopted, LYNX will strive

to maintain an investment/asset portfolio duration approximately equal to its debt/liability "portfolio". Equilibrium with respect to the duration of assets and liabilities may help LYNX earn interest on aggregate investments at its overall cost of capital or better.

11.4 Prudence

Prudence standard applied to the portfolio - the standard of prudence shall be applied in the context of managing the portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Prudent expert standard - 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 monies 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 of material losses, unless under the circumstances it is clearly prudent not to do so, and not in regard to speculation but in regard to the permanent disposition of similar funds, considering the probable income as well as the probable safety of their capital.

11.5 Ethics and Conflicts of Interest

Employees under the direction of the Chief Executive Officer - Officers and employees involved in the investment process shall not engage in personal business activities (e.g. directing business to favored broker/dealers) that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Officers and employees (including members of any committee established by the Board) shall immediately disclose to the Chief Executive Officer any material interest in any financial institution that conducts business with LYNX. For purposes of this paragraph, "material interest" shall have the same meaning as in section 112.312(15), Florida Statutes (1995).

11.6 Delegation of Authority

The Authority to manage the investment program is granted to the Chief Financial Officer.

11.7 Internal Controls

System of Controls - The Chief Executive Officer directs or otherwise recommends that the Chief Financial Officer establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees or by

those individuals and/or entities under contract to LYNX. The controls shall provide that all transactions are confirmed in writing. In the development of the system of internal controls, consideration shall be given to documentation of strategies and transactions, techniques for avoiding collusion, separation of functions, delegation of authority and limitations of action, custodial safekeeping, and avoidance of bearer-form securities. The CFO will establish management controls specific to EFPMs.

11.8 Independent Audit

The independent public accounting firm retained to conduct the annual audit of LYNX is directed to evaluate the system of controls relating to the investment of assets. Procedures should be performed by the accountants to provide reasonable assurance that investment officials have acted in accordance with the Investment Policy. The audit procedures shall include, but not be limited to, surprise audits of custodial and safekeeping systems. To the extent allowed by professional standards, the auditor may rely on work performed by other independent public accountants or internal auditors.

11.9 Reporting

The Chief Executive Officer may periodically, direct or otherwise recommend that the Chief Financial Officer obtain a written report from the custodian, including but not limited to: (i) a summary of recent market conditions; (ii) economic developments and anticipated investment conditions; (iii) a summary of investment strategies employed; (iv) a description of the portfolio (listing securities by type or class, maturity, risk class, book value, income earned and market value by report date) and a report of the period total investment return. Actual returns should be compared against planned figures. Any areas of concern should be addressed and portfolio changes made as warranted. The report will also include EFPM holdings and activity.

11.10 Performance Benchmarks

Investment performance benchmarks should be consistent with the quality, safety and liquidity restrictions and utilized to evaluate portfolio performance. These benchmarks will allow LYNX to compare returns to other investors in the same markets.

Based on the investment and maturity parameters for each portfolio, LYNX shall establish specific performance benchmarks. When establishing a performance benchmark for a portfolio, there are three main factors which will be considered:

1. it is independently compiled,
2. it represents true total return,
3. it is representative of the types of securities in the appropriate maturity range.

The quarterly report will show performance on both a book value and market value return basis and will compare the results to the established benchmarks.

11.11 Instruments

Policy restrictions - In addition to the statutory restriction on common stock, no monies may be invested in an investment company portfolio containing common stock in real estate, in options and futures, and in precious metals.

Use of derivative products - LYNX has established herein clearly defined procedures with respect to the analysis, documentation and management of derivative products. The Authority's staff will manage all agreements on an ongoing basis. LYNX has developed procedures to ensure that all agreements and periodic payments are monitored, that counter-party credit and documentation requirements are maintained, and that the portfolio is continually evaluated to determine each agreement's value, to identify restructuring opportunities and to assess trading potential.

11.12 Investments

Investment alternatives, other than securities, must have an established market. Investments should be made subject to the cash flow needs of LYNX. Such cash flows are subject to revisions as market conditions and agency needs change. It is the intent of the Chief Financial Officer to avoid assets that require a significant time to liquidate.

The following is a list of authorized investments for LYNX for operating and surplus funds in which the Chief Financial Officer may invest at the prevailing market rates and at an appropriate amount thereof. Bond proceeds may be further limited or expanded as to their permitted investments by their respective bond resolutions or covenants.

1. The Local Government Surplus Funds Trust Fund, as created by Section 218.405, Florida Statutes and administered by the State Board of Administration (SBA);
2. United States Treasury and Agency securities whereby all principal and interest payments are guaranteed by the full faith and credit of the United States government. Agency securities backed by the U.S. must have at least two AAA, Aaa, AAA long-term credit ratings from Standard & Poor's, Moody's or Fitch, respectively. Maturities may not exceed 12 months;
3. Interest-bearing time deposits or savings accounts in Qualified Public Depositories (QDP) as defined in Section 280.02 Florida Statutes;
4. Obligations of the Federal Farm Credit Banks; the Federal Home Loan Mortgage Corporation, including Federal Home Loan Mortgage Corporation participation certificates; or the Federal Home Loan Bank or its district banks or obligations guaranteed by the Government National Mortgage Association. Collateralized mortgage obligations (CMOs) can be used if appropriate procedures are utilized to evaluate.

5. Deposits, federal funds or bankers acceptance of any domestic bank, including a branch office of a foreign bank which branch office is located in the United States, provided legal opinions are received to the effect that full and timely payment of such deposits or similar obligation is enforceable against the principal office or any branch of such bank, which:
 - a) has an unsecured, uninsured and unguaranteed obligation rated in either of the two highest letter rating categories by a Rating Agency, and
 - b) is the lead bank of a parent bank holding company with an unsecured, uninsured and unguaranteed obligation meeting the rating requirements in (a) above;
6. Prime commercial paper of a United States corporation, finance company or banking institution if such commercial paper is rated at least "P-1" by Moody's or at least "A-1+" by S&P and if such commercial paper is stated to mature in not more than 270 days.
7. Securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided the portfolio of such investment company or investment trust is limited to United States Government obligations and to repurchase agreements fully collateralized by such United States Government obligations or its agencies and provided such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.
8. Repurchase agreements collateralized by Direct Obligations with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank, if such broker/dealer or bank has an uninsured, unsecured and un-guaranteed obligation rated in either of the two highest letter rating categories by a Rating Agency, provided:
 - a) a master repurchase agreement or specific written repurchase agreement governs the transaction, and
 - b) the securities are held, free and clear of any lien, by the trustee of the fund the monies of which were invested in such agreements, the Authority, or an independent third party acting solely as agent for such trustee or the Authority, and such third party is
 - i) a Federal Reserve Bank,
 - ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, or

- iii) a bank approved in writing for such purpose by the Bond Credit Facility provider, if any, and the trustee or the Authority shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the trustee or the Authority, and
 - c) a perfected first security interest under the Uniform Commercial Code, or book entry procedures described at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Authority, and
 - d) the repurchase agreement has a term of thirty days or less, or the Authority will value collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the collateral percentage required pursuant to subparagraph (f) below is not restored within two business days of such valuation, and the repurchase agreement matures at least one day (or other appropriate liquidation period) prior to the date on which it is anticipated that the funds invested therein will be expended, and
 - e) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest is equal to at least 102%.
9. Shares in a common law trust established as a separate public agency under Section 163.01, Florida Statutes which invests exclusively in investments permitted by Florida Statute.
10. Other Investments authorized by law or ordinance for a county or municipality.
11. Other investments authorized by law or ordinance for a school or a special district.
12. Energy Forward Pricing Mechanisms (EFPs), including futures, options, etc., as a budget risk tool for purchases of LYNX-consumed commodities, (i.e. diesel fuel, gasoline, and natural gas), when they have a holding period and expiration of not more than 36 months from their trade date.

11.13 Selection of Qualified Institutions

The Chief Executive Officer directs or otherwise recommends that the Chief Financial Officer maintain a formalized written procedure for the selection of depositories in money market instruments and broker dealers in the execution of securities transactions. Such procedures should describe the competitive selection process and rationale for selection. All brokers/dealers and depositories deemed to be "qualified institutions" shall be provided with current copies of this Policy.

11.14 Competitive Selection of Investment Instruments

After the Investment Advisor or the Chief Financial Officer has determined the approximate maturity date based on cash flow needs and market conditions, not to exceed one (1) year for operating funds, and has analyzed and selected one or more optimal types of investments, a minimum of three (3) reputable, qualified, and financially sound institutions and/or dealers must be contacted and asked to provide bids on securities of interest. Bids will be held in confidence until the highest bid is determined and awarded.

However, on an exception basis, securities may be purchased utilizing the comparison to current market price method. Acceptable current market price providers include, but are not limited to:

1. The Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing,
2. Daily market pricing provided by the Authority's custody agents or their correspondent institutions.
3. Interactive Data Corporation (IDC)
4. Various third party sources currently utilized by the Investment Advisor

The Investment Advisor or the Chief Financial Officer shall utilize the competitive bid process to select the securities to be purchased or sold. Selection by comparison to a current market price, as indicated above, shall only be utilized when, in the judgment of the Investment Advisor or the Chief Financial Officer, competitive bidding would inhibit the selection process.

Examples of when this method may be used include;

1. When time constraints due to unusual circumstances preclude the use of the competitive bidding process.
2. When no active market exists for the issue being traded due to the age or depth of the issue.
3. When a security is unique to a single dealer, for example, a private placement.
4. When the transaction involves new issues or issues in the "when issued" market.

Overnight sweep repurchase agreements will not be bid, but may be placed with the depository bank relating to the demand account for which the repurchase agreement was purchased.

11.15 Safekeeping and Collateralization

All cash, assets, and investment securities purchased by LYNX or held as collateral on investments shall be delivered versus the payment of funds and held in safekeeping by a qualified bank, or some other financial institution designated as custodian. The custodian will be selected by LYNX. All securities held as collateral will be held free and clear of any lien, and also shall be held by a third party custodian. Safekeeping and custody of EFPs, and the cash directly supporting such mechanisms, shall follow industry practices including maintenance of accounts at brokerage companies.

All securities purchased by LYNX will be held by a third party custodian and no withdrawal of such securities may be made by anyone except the Chief Financial Officer or the Chief Financial Officer's designated employees.

The Chief Executive Officer or designee will execute all third party custodial agreements with LYNX's banks and public depositories. Such an agreement will include letters of authority from the Chief Financial Officer as to the responsibilities of each party, notification of security purchases, sale, delivery, safekeeping and transaction agreements and wire transfers, safekeeping and transaction costs, and - procedures in the event of wire failure.

Any funds invested in a certificate of deposit from a qualified public depository may be collateralized by any of the securities listed in Sections 280.13 and 280.14 of the Florida Statutes. The list of qualified depositories, agreeing to the provisions in Chapter 136 of the Florida Statutes, is available upon request from the Department of Insurance and Treasurer of the State of Florida.

11.16 Security Disposition

Every security purchased must be properly earmarked and:

1. registered with the issuer and maintained in a safe place.
2. if held in book entry form, held for the credit of LYNX by a depository chartered by the Federal Government, the state or any other state or territory in the US as described in s 658.12, or by national organization existing under the laws of the U.S. Securities must be held in a depository in a separate account from assets of the financial institution.
3. if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault.
4. LYNX may also receive bank trust receipts in return for investment of surplus funds in securities. All trust receipts received must list the various securities held with the specific number of securities held in accordance with 2) above.

This section does not apply to the Local Government Surplus Funds Trust Fund.

11.17 Sale of Security

When the invested funds are needed in part or in whole for the purpose originally intended or for more optimal investments, LYNX may sell such investments at the then prevailing market rate and place proceeds into the proper account or fund.

11.18 Preemption

Any provision of any special act, municipal or other law which prohibits or restricts a local government entity from complying with Florida Statute 218.415 or any rules adopted under this section is void to the extent of the conflict.

11.19 Continuing Education

The CFO and staff responsible for making investment decisions shall obtain 8 hours of continuing education related to investment practices and products.

11.20 Transfer of Funds

Authorized personnel who can transfer funds: Chief Executive Officer, Chief Financial Officer or Manager of Finance.