



# ***Florida PRIME™ Best Practices Review***

Florida State Board of Administration (SBA)

*June 2017*

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# Table of Contents

Executive Summary	1
2017 Participant Survey Results	2
Federated Onsite	3
Compliance Review	4
Money Market Reform Follow-up	5
Investment Policy Statement Review	6
Appendix	7

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## Executive Summary

Aon Hewitt Investment Consulting (AHIC) conducts a Best Practices Review of Florida PRIME on an annual basis. In this report, we review the responses to the annual participant survey, review the onsite due diligence meeting conducted at Federated Investment Counseling (Federated), Florida PRIME's investment manager, review the compliance procedures governing the portfolio, provide an update on the incorporation of the final Governmental Accounting Standards Board (GASB) Statement 79 guidelines, and review the Florida PRIME Investment Policy Statement.

Based on our review, we continue to believe that Florida PRIME is being managed in a manner consistent with best practices and in consideration of participants' best interests.

### 2017 Recommendations

- Consider the observations identified in the Compliance Review over the next year with the goal of identifying potential modifications to the compliance procedures to streamline the process and increase the efficiency of current resources.

## 2017 Participant Survey Results

On an annual basis, the SBA conducts a survey of Florida PRIME participants in order to gain a better understanding of the participant base, current usage of available services, and overall investor satisfaction. The survey also seeks to gauge interest in various enhancements and to ensure awareness of participant needs and preferences. The 2017 survey attracted 90 respondents, representing over a 20% increase from the survey last year.

A diversified group of governmental units responded to the survey, primarily representing counties, municipalities, school boards and special districts. Approximately 65% of respondents employ less than 1,000 employees, and 42% have over \$10 million of cash assets available for short-term investment, with another 30% having between \$1 million and \$10 million of cash assets available. Of the respondents, 70% have either one or two accounts with Florida PRIME, 40% indicated having a balance of over \$10 million with Florida PRIME, and 29% indicated having between \$1 million and \$10 million with the pool. The survey also revealed that 24% of respondents maintained greater than 75% of their cash surplus in Florida PRIME over the past year, while 34% indicated they have maintained less than 25% with Florida PRIME.

Consistent with previous years, the survey posed questions related to how and why participants utilize other competing and complementary liquidity vehicles. Of the 43 respondents that indicated their organization has a policy that dictates a maximum allowable allocation to Florida PRIME, 28, or 65%, are restricted to allocating 50% or less to any single governmental investment pool or money market fund. Relatedly, when asked what prevents an organization from using Florida PRIME as the primary source of cash management, 37% of the 73 respondents to this question indicated diversification needs of the cash portfolio or Investment Policy restrictions were major reasons, with another 39% indicating these were moderate reasons. Deviating from previous survey responses, only 27% of respondents (compared to 44% last year) indicated an unattractive yield level was either a major or moderate reason for not utilizing Florida PRIME as the primary source of cash management, while 57% indicated it was not a reason at all.

Consistent with previous surveys, respondents indicated the most commonly used vehicles aside from Florida PRIME are Certificates of Deposits at 37% of respondents, followed by SEC registered money market funds at another 37% of respondents. The survey also asked respondents to rank how competing investment services have added value to the respondent organizations' investment goals from the following list: yield, cost, risk, client service, available funds, and ease of use. Respondents indicated that risk, defined as perceived risk levels adjusted for the level of return, was the most appealing feature, followed by yield. Client service and ease of use were ranked the lowest in terms of value add from competing investment services.

The survey questions surrounding current services related to Florida PRIME continue to receive strong feedback. Related to the Florida PRIME website, 79% of respondents indicated that they visit the site at least once a month, 76% responded that they find the website functionality as very easy to use, and an

additional 23% indicated it is somewhat easy to use. The survey also indicated that the vast majority (99%) of participants continues to utilize the website primarily to access account balances and statements, and approximately 66% and 45% of respondents utilize the website to make transactions and to access the Monthly Summary Reports, respectively. When asked about the usefulness of multiple communication pieces, the responses also continue to be favorable. The survey indicated that over 70% of respondents rated the following communications as very useful: monthly account statements (93%), e-mail notifications of withdrawals (79%) and changes to bank instructions (71%). Further, over 50% of respondents found the following to be somewhat useful: Periodic eNotices (50%) and Monthly Summary Reports (56%).

Overall, the survey results continue to be positive regarding the operational and service related questions, and the growth in respondents from the previous year is favorable and indicates increased engagement. Responses related to the use of competing investment vehicles continue to be mixed, with indications of risk and yield being top of mind, but notably, that a large percentage of respondents' organizations seek diversification from a single cash management source. Generally, the survey indicates a strong level of satisfaction with the management of the Florida PRIME portfolio. We continue to believe the survey is a great mechanism to obtain feedback from Florida PRIME participants, as well as to express the SBA's awareness and receptiveness to the participant's needs and wants.

## Federated Onsite

AHIC and SBA Staff conduct onsite due diligence meetings at Federated's offices once every two years. The previous onsite visit occurred in April 2015, and most recently SBA Staff and AHIC were onsite at Federated's headquarters in Pittsburgh, PA on April 11, 2017. The objective of these regular onsite due diligence meetings is to conduct a comprehensive review of Federated's business, personnel, and processes, and specifically those that directly impact the management of the Florida PRIME portfolio. The SBA contracts Federated to provide investment advisory services for the Florida PRIME and therefore it is crucial to maintain an up-to-date and favorable opinion of the business.

Attendance at the meeting included the Senior Officer of Investment Programs and Governance, the Director of Public Market Compliance, and the Chief Risk and Compliance Officer from the SBA, and a representative from AHIC, general consultant to the SBA. The meeting included dedicated time with over fifteen Federated investment professionals, many of whom are among the most senior professionals in the firm, and specifically within the money market division.

Overall, we continue to find Federated to be among the most highly regarded money market managers in the industry. The most recent onsite meeting reinforced our confidence in Federated's capabilities of managing the Florida PRIME portfolio, staying apprised and ahead of the ongoing changes in the money market and related industries, and importantly, safeguarding the assets of the pool's participants. The Federated team is consistently available and responsive to the needs of Florida PRIME and is a proven partner for the SBA.

Below we provide a brief summary of the agenda topics and the surrounding discussion.

### Corporate Overview and Legal

Federated is a highly-regarded institutional money market fund manager with a sole focus on asset management. As of December 31, 2016, Federated managed a total of \$366 billion, of which roughly 66% was invested in money market funds and 13% was invested in prime funds (under which Florida PRIME is classified). Importantly, however, Federated's revenue sources are diversified roughly equally across money market, fixed income and equity investment products. Federated manages assets for over



5,000 public entities across 34 states. Of the 46 money market portfolios Federated manages, 16 are prime, 13 are government/Treasury, and 17 are tax-free. The Global Money Market team at Federated consists of 34 investment professionals with an average industry experience of 21 years. As exhibited by the average tenure at Federated of 20 years, the Federated team is extremely stable and experienced. Additionally, the firm is active in the industry across multiple venues, providing confidence in the guidance and management of the Florida PRIME portfolio. Overall, we find Federated to be a high-quality and proactive player in the money market space with a stable and strong organization.

#### Compliance, Trading, Information Technology and Security/Disaster Recovery

The Federated Compliance Department is comprised of over thirty employees who are dedicated to overseeing the investment activities and operations of Federated's business units and responsible for the development and enhancement of programs which track compliance with applicable regulations, corporate standards and client guidelines.

Specific to Florida PRIME, this team is responsible for monitoring the portfolio's investment activities and operations for compliance with the Investment Policy Statement and applicable guidelines, such as GASB 79. The Compliance Department, in conjunction with the Business Information Services Division (BISD) and Investment Management Operations (IMO) develop, update, and implement automated tests within the trading system to assure trading compliance with Policy. FedPorts, the proprietary trading system utilized for the management of Florida PRIME, allows Federated to create a set of rules specifically for the Florida PRIME portfolio. These rules and automated tests are constantly updated and reviewed to ensure they are in line with the governing policies and regulations of Florida PRIME.

Every trade that is generated runs through compliance. Should any trade placed not comply with the set of rules, a notice of either 'Warn,' 'Fail' or 'Stop' will be received and will need to be rectified before the trade can be processed. Each notice has a different level of importance and corresponding parameter on who can validate the trade. During the onsite, Federated provided a live demo of the trading program and process, highlighting the functionality of the automated tests at the various levels in the management process.

Overall, we believe Federated has implemented a straightforward and efficient system to ensure guidelines are followed and escalation procedures are effective. The compliance program the Federated Compliance Department has developed has been successful in the management of the investment pool and in maintaining compliance with the applicable Florida PRIME regulations and policy.

The Federated trading team is well tenured, consisting of forty-five traders across asset classes, with an average of nineteen years of experience. The trading process begins with the development of the investment strategy, which is followed by thorough credit analysis before trading takes place. When trading, the team utilizes a best execution policy for selecting brokers and has a committee that meets quarterly and oversees the broker selection practices. User access to FedPorts, Federated's proprietary order management system (as previously noted) is customized by role in portfolio management (i.e. compliance, trading, credit analysis, portfolio management, etc.). The trading team works together with Federated's other business units to execute Florida PRIME's investment strategy on a seamless basis.

Federated's BISO, mentioned earlier, manages the communications network and information technology infrastructure. Security of client and Federated information is managed at multiple levels at the firm. Federated utilizes a dual data center architecture located on separate power grids to support the business. All satellite offices connect to both data centers, reducing risk by allowing all critical daily functions to run smoothly in the event of an emergency. Federated has several business continuity plans throughout the company which are tested on an annual basis. Additionally, Federated reviews all third party organizations they partner with to ensure information and data is handled in an appropriate and secure manner, and that their vendors' business continuity plans are up to Federated's standards. Overall, we find Federated's risk management and information security infrastructure and procedures to be robust and in line with industry best practices.

#### Florida PRIME Update

Senior Portfolio Manager for the Florida PRIME pool, Paige Wilhelm, led the discussion on the Florida PRIME portfolio. The pool is managed with the goal of providing safety, liquidity and competitive returns while minimizing risk. Ms. Wilhelm provided an update on the investment strategy, as well as Federated's view of the current and expected money market investment landscape. The Florida PRIME portfolio continues to perform favorably and competitively, and has provided the safety and liquidity characteristics

needed by its participants. Additionally, Deborah Cunningham, Federated's Head of Global Money Markets and Senior Portfolio Manager, joined the discussion for a short period. Ms. Cunningham provided a perspective on the money market landscape and an update on the recently enacted money market reforms. Federated was an active participant in the industry during the reform debate, as well as a crucial aide to the SBA in staying current with the most recent GASB guidance and best practices. The impact of the reforms on the management of Florida PRIME was minimal, as the portfolio was already being managed in accordance with the existing regulations and guidelines. Overall, the Florida PRIME portfolio continues to be managed successfully and in a thoughtful and prudent manner.

#### Enterprise Risk Management, Reporting

The Enterprise Risk Management (ERM) division develops, implements, and maintains the risk management programs for Federated. This covers investment matters, administration, operations and distribution. Importantly, ERM is independent of the Investment Department, with the Chief of Risk Officer reporting directly to Chief Legal Officer, who in turn reports directly to the Chief Executive Officer of Federated. Additionally, the team periodically provides update reports to the Fund Trustees and Board of Directors. The Chief Risk Officer oversees a robust ERM team and has developed several risk committees which are embedded within each business unit. Each committee develops a charter which is reviewed and updated on a regular basis to ensure the activities and attention of the committee remain appropriate and effective. The committees have a systematic scoring process which assesses probability and severity of impact of identified risks. The scoring process allows Federated to assess different strategies and better prepare and manage assets. The risks are dynamically evaluated and reassessed on a regular basis. Additionally, Federated's internal audit periodically reviews the risk committees' processes to ensure their appropriateness and effectiveness.

#### Conclusion

The onsite meeting provided a comprehensive overview of the firm and access to Federated's senior professionals. The meeting reinforced our confidence in Federated's capabilities with regard to the people, processes and technology that support the management of Florida PRIME and we continue to have confidence in Federated's ability to manage and safeguard the assets of Florida PRIME participants.

## Compliance Review

The compliance policies and procedures that govern the Florida PRIME investment pool represent a robust, multilayered approach to ensuring the portfolio remains in compliance with the criteria contained in the Investment Policy Statement. The effectiveness of the compliance procedures is crucial to the success of Florida PRIME in preserving and protecting participants' assets. The Florida PRIME procedures have been continually updated and improved over time, as the portfolio and industry continue to evolve. We believe it is important to periodically take a step back and review the entire compliance process to ensure that the procedures remain effective, relevant, and efficient.

As part of the 2017 best practices review, and in conjunction with the April 2017 Federated onsite visit, AHIC took the opportunity to review the compliance procedures governing the Florida PRIME investment pool. Our observations are threefold. First and foremost, we believe Federated has established thorough and effective compliance procedures, and we have full confidence in their ability to manage the portfolio successfully and in compliance with the applicable guidelines. Secondly, we believe the SBA has developed a very comprehensive compliance program that both ensures the policies in place for Florida PRIME are in line with best practices and provides independent verification that the portfolio is constantly managed in compliance with the governing policies. Lastly, after reviewing the compliance process as a whole, we have identified certain areas where we believe efficiencies could be gained through streamlining processes and refocusing redundant efforts towards more effective activities.

The remainder of this section highlights the current compliance process and provides initial observations AHIC plans to bring forth for SBA Staff consideration in the year ahead.

### **Florida PRIME Compliance Review**

There are three main entities responsible for the compliance oversight of the Florida PRIME portfolio: Federated as the investment manager, Standard and Poors (S&P) as a Nationally Recognized Statistical Rating Organization (NRSRO), and the SBA Fixed Income-Investment Oversight Group (FI-IOG), as the oversight body. As Florida PRIME's investment manager, Federated has the ultimate responsibility for ensuring the portfolio is in compliance with the Investment Policy Statement (IPS) at all times. Accordingly, Federated has implemented thorough procedures and tests which are reported to the SBA

on multiple frequencies. S&P provides independent surveillance on the portfolio and reports to Federated on a regular basis as well. Lastly, the SBA has also established detailed procedures to verify that the portfolio remains in compliance with the terms and parameters outlined in the IPS.

Below we highlight the compliance procedures carried out by Federated, S&P, and the FI-IOG. We also include a summary table of the below in the Appendix of this report.

### Federated Compliance Procedures

Federated has established multiple procedures at different frequencies (daily, weekly, monthly, quarterly and annually), outlined below, to ensure the portfolio is in compliance with all applicable policies and guidelines.

*Daily* – The daily process Federated has in place covers both pre-trade and post-trade procedures.

- Pre-trade: Every trade that is placed for the portfolio runs through the set of automated tests to ensure the trade will not position the portfolio out of compliance with Policy. As outlined in the previous section, these tests are developed by Federated’s Compliance Department to align with the Florida PRIME IPS. The system is balanced between instant checks designed to prevent the portfolio from breaching parameters and flexibility to allow for qualitative influence where automated tests are not effective.
- Post-trade: On a daily basis, Federated runs batch checks on the portfolio, as well as the Compliance Report to ensure the portfolio remains in compliance with the IPS.
  - The Compliance Report reviews a set of 25 parameters and designates a status of either pass or fail. The Report is run on a daily basis and on a monthly basis is sent to the SBA and posted to the Florida PRIME Website.

Any violations of the IPS (which includes a “fail” status on the Compliance Checklist) are required to be reported to the SBA within 24 hours of identification.

*Weekly* – Federated delivers two weekly reports to S&P which include portfolio holdings, portfolio weighted average maturity, portfolio weighted average life, total net assets, total net subscriptions and redemptions, percentage portfolio holdings, total percentage illiquid securities and the percent of holdings

in A1+ and A1 buckets. S&P utilizes this information to conduct an independent review of the Florida PRIME portfolio to ensure compliance with Policy.

*Monthly* – Prior to the tenth business day after month-end, Federated delivers a Compliance Report to SBA’s Director of Public Market Compliance. The report includes the list of 25 compliance parameters that are tested at month-end and given a status of either pass or fail. This report and the status results are posted to the Florida PRIME website every month. Federated also conducts monthly stress tests on the portfolio. The stress tests, at a minimum, must assess changes in short-term interest rates, increases in net shareholder redemptions, downgrades or defaults and changes between a benchmark overnight interest rate, and the interest rates on securities held by the portfolio. Lastly, Federated reconciles data with Florida PRIME’s custodian bank, BNY Mellon, on a monthly basis.

*Quarterly* – The monthly stress tests Federated conducts are required to be reported to the SBA at a minimum once a quarter. Should the need arise, Federated will conduct and/or present the stress tests on a more frequent basis or as requested.

*Annually* – At a minimum of once a year, Federated provides the SBA with their updated compliance procedures and an assessment of Florida PRIME’s ability to withstand events reasonably likely to occur in the coming year. Additionally, Federated provides an update on the portfolio and presents relevant topics to the Participant Local Government Advisory Council (PLGAC).

#### Standard & Poor’s Surveillance

The SBA utilizes S&P to rate the creditworthiness of Florida PRIME. S&P receives weekly portfolio data from Federated to perform its own independent analysis of the creditworthiness of investments and counterparties, the market price exposure of investments, portfolio liquidity, and the ability to maintain a stable net asset value (NAV). On a semiannual basis, S&P performs a more formal credit rating review of the Florida PRIME and on an annual basis S&P performs a separate and independent evaluation of Federated.

### SBA Compliance Procedures

Similar to Federated, Risk Management and Compliance (RMC) at the SBA maintains detailed procedures to independently verify compliance of the Florida PRIME portfolio with the IPS.

Pursuant to the IPS, the Fixed Income - Investment Oversight Group (FI-IOG) was created to review compliance exceptions and risks that may have a material impact on the Florida PRIME portfolio. The FI-IOG includes the following members and senior professionals:

- Director of Public Market Compliance
- Chief Risk & Compliance Officer
- Senior Investment Officer of Fixed Income
- Director of Enterprise Risk Management
- Senior Officer of Investment Programs and Governance

We highlight the Florida PRIME compliance procedures below.

*Daily* – The RMC monitors the net asset value (NAV) of the portfolio on a daily basis to ensure the deviation between the market value and amortized cost does not exceed 0.25%.

*Monthly* - Consistent with the IPS, the FI-IOG is charged with the responsibility of periodically conducting independent compliance reviews to verify the accuracy of results reported on the Federated Compliance Report. A risk-based approach is utilized to perform this task. Each parameter outlined in the IPS is ranked by the FI-IOG as either high or low with respect to the level of risk associated with a potential guideline breach. Currently, there are nine parameters ranked as high risk and these are independently verified by RMC on a monthly basis. Also on a monthly basis, the FI-IOG reviews any parameter on the Federated Compliance Report that has a status of “fail” by utilizing the underlying detailed reports on each parameter. In addition to verifying results reported on the Compliance Report, RMC also reviews transaction data on a monthly basis to verify that all transactions executed during the month were permitted under the IPS.

The FI-IOG holds required monthly meetings, along with ad-hoc meetings as needed to review compliance exceptions as identified by RMC or reported by Federated, to develop action plans, and to escalate necessary recommendations for consideration by the Executive Director & CIO.

*Quarterly* – On a quarterly basis, the FI-IOG reviews the stress tests with the Federated Senior Portfolio Manager. Additionally, risk and return information is presented to the Investment Advisory Council (IAC) and Board of Trustees on a quarterly basis.

*Annually* – The Florida PRIME Investment Policy Statement is reviewed by SBA Staff on an annual basis. The IPS is also reviewed and approved by the IAC and Board of Trustees. Subsequently, the FI-IOG reviews and approves the risk rankings of IPS parameters and the frequency of independent verification. Lastly, the Auditor General conducts an annual financial statement audit of Florida PRIME, which also includes testing for compliance with the IPS.

### **Observations**

The compliance policies and procedures that govern the Florida PRIME investment pool represent a comprehensive, multilayered approach. With the exception of one modest breach (noted in our 2013 Best Practices Report), there have not been any breaches of the investment guidelines in over six years. Further, the monthly Compliance Report produced by Federated and reviewed by the FI-IOG, has never triggered a status of ‘fail’ and there have never been any material discrepancies between the SBA’s findings and Federated’s since the risk-ranked independent verification process has been in place.

As outlined above, we believe the compliance policies and procedures governing the management of Florida PRIME are comprehensive and effective. However, we also believe there is potential for inefficiencies and redundant efforts to have developed over time. Below we highlight initial observations of the compliance process that we believe may benefit from a more detailed review, and that AHIC plans on discussing with SBA Staff in the coming year.

- Federated has done an excellent job of safeguarding Florida PRIME’s assets and keeping the portfolio compliant with the IPS for the duration of Federated’s relationship with the SBA. AHIC and SBA Staff regularly verify and vet the compliance procedures set forth by Federated in



conjunction with the onsite visits and have full confidence in the firm's ability to safeguard Florida PRIME's assets. Additionally, S&P conducts independent analyses of Florida PRIME on a weekly basis, as well as an independent review of Federated on an annual basis.

- AHIC will consider the roles and activities of RMC as it relates to the Florida PRIME and suggest potential avenues to enhance or streamline the process.
- Certain compliance parameters that involve "time of purchase" constraints prevent SBA Staff from being able to independently verify, given that the SBA utilizes month-end Compliance Reports and does not have access to real time trading data. Any discrepancies found are brought to the attention of Federated to be remedied as soon as identified.
  - There have not been any material discrepancies since the risk-ranked verification process has been in place or a "fail" status on the Compliance Reports for six plus years.
  - AHIC will consider the appropriateness of the time and effort put forth in verifying the "time of purchase" constraints noted above.
- The credit quality independent verification process conducted by the SBA Staff appears to be a timely and cumbersome, and potentially redundant, process. Credit quality is a high risk parameter that Federated reviews daily and S&P reviews weekly.
  - The portfolio has never breached the credit rating requirements.
  - A better understanding of the Federated and the S&P credit rating review processes will better prepare AHIC to evaluate the current independent verification process conducted by the SBA, and to ensure the credit rating process in its entirety is valuable and effective.
- Certain procedures performed by SBA Staff require significant manual efforts and time.
  - SBA Staff is extremely resourceful and efficient with the systems and relationships made available to them. AHIC will work with SBA Staff to identify any existing or additional vendors that may improve the efficiencies of the RMC's compliance procedures and allow potentially a better allocation of resources.
- The Florida PRIME's Investment Policy Statement and Compliance Program Procedures are both very well-constructed and thorough documents governing the investment portfolio. When reviewing the documents side-by-side from a compliance perspective, we felt modest adjustments to the organization of the information and listed compliance procedures could improve the consistency and comprehension across the documents.

- AHIC will work with SBA Staff to identify potential structures to better connect the two important documents.

## Money Market Reform Follow-up

The SBA manages the Florida PRIME portfolio in accordance with guidelines set forth by the Governmental Accounting Standards Board (GASB), which is the source of generally accepted accounting principles used by state and local governments. As a result of the global financial crisis and the run on money market funds in 2008, there have been two significant and much-debated reforms to the Securities and Exchange Commission's (SEC) Rule 2a-7, which covers registered money market funds. The two rounds of reforms were approved by the SEC in 2010 and 2014. The goal of the reforms is to provide additional protection and transparency to industry participants and ultimately avoid another 2008 event.

The money market reforms are relevant to the Florida PRIME portfolio as it has historically been managed as a "2a-7 like" pool, defined by GASB as an external pool that satisfies the requirements of SEC Rule 2a-7, without actually being registered with the SEC. In December 2015, GASB released guidance (GASB 79) for local government investment pools related to the 2014 reforms, and specifically how to qualify to continue to measure all investments at amortized cost, rather than float the net asset value (part of the 2a-7 reforms).

The SBA, Federated and AHIC have historically monitored and updated Florida PRIME's investment policies and procedures to maintain compliance with the GASB guidance and best practices for external government investment pools. The most recent guidance (GASB 79) addressing the 2014 reforms was incorporated into Florida PRIME's Investment Policy Statement approved in August 2016. The updates, which were outlined in our 2016 Florida PRIME Best Practices Report, were modest in nature as the pool constantly stayed up to date with the "2a-7 like" guidance from GASB historically.

Provided that the modifications to the Florida PRIME Policy were modest in nature, and that the portfolio has historically been managed in accordance with the most recently available GASB guidelines, the adoption of the 2016 changes was seamless. At this time, we do not anticipate additional material changes to the money market regulations or GASB guidance, and believe the Florida PRIME IPS and management continue to represent best practices in the industry.

## Investment Policy Review

On a periodic basis, AHIC includes a review of the Florida PRIME Investment Policy Statement (IPS). The objective of the IPS is to set forth the objectives, strategy, guidelines, and overall responsibilities for the oversight and prudent investment of Florida PRIME assets. The purpose of the periodic review is to ensure the document reflects the evolving investment portfolio, current legal and regulatory developments, and best practices. A well-written and unambiguous document is critical to the success of an investment program

Included in AHIC's 2016 best practices review was a comprehensive review of the Florida PRIME IPS and recommendations for modifications to align the IPS with the recently released GASB 79 guidelines. The modifications were all generally modest as Florida PRIME has stayed current with the guidelines issued by GASB over time.

As part of the 2017 review, AHIC reviewed the IPS and continues to find that the topics covered continue to be relevant and cover the components that are critical to the success of the management of Florida PRIME assets. The investment objective of the pool and the roles and responsibilities are clearly defined. The IPS provides the necessary specifics and supplemental guidelines for a clear understanding of the investment strategy, making direct and clear reference to the appropriate GASB guidelines for appropriate fiduciaries to follow and understand. We believe the IPS thoroughly defines the risks that are associated with investing in Florida PRIME and find the detailed control procedures provide the comfort of prudent safe-keeping and oversight of assets.

While it is not expected that the IPS will change frequently, it is a living, breathing document that should be reviewed periodically to ensure it remains appropriate and relevant. Overall, we continue to believe the Florida PRIME IPS is robust and in line with the goals and objectives of investment pool, and continue to find the Policy to be an effective guiding document for the management of Florida PRIME.



# *Appendix*

	Daily	Weekly	Monthly	Quarterly	Annually	Ad Hoc
Federated	<ul style="list-style-type: none"> <li>FedPorts: Trade by trade (pre/post)</li> <li>Verify:                             <ul style="list-style-type: none"> <li>NAV</li> <li>Cash Balances</li> <li>Total Net Assets (TNA)</li> <li>Yield</li> <li>Daily Liquidity</li> <li>Weekly Liquidity</li> </ul> </li> <li>Compliance with IPS and GASB, S&amp;P</li> <li>Monitor participant flows</li> </ul>	<ul style="list-style-type: none"> <li>Report to S&amp;P</li> </ul>	<ul style="list-style-type: none"> <li>Produces Compliance Report</li> <li>Conducts Stress Tests</li> <li>Reconcile with BNY</li> <li>Monthly reporting for Florida Prime Monthly Report/Website</li> </ul>	<ul style="list-style-type: none"> <li>Report stress tests to SBA</li> <li>Report to PLGAC</li> </ul>	<ul style="list-style-type: none"> <li>Report to IAC/PLGAC</li> <li>Assist with Annual Audit</li> <li>Provide compliance documents and procedures</li> </ul>	<ul style="list-style-type: none"> <li>Report compliance exceptions</li> </ul>
S & P		<ul style="list-style-type: none"> <li>Verify credit quality</li> <li>Review Portfolio Holdings, WAM, WAL, TNA</li> <li>Evaluate Federated's ability to maintain stable NAV</li> </ul>			<ul style="list-style-type: none"> <li>Formal review of Federated</li> <li>Rating review of Florida PRIME (semiannually)</li> </ul>	
FL SBA RMC & FI-IOG	<ul style="list-style-type: none"> <li>Independently verifies NAV</li> <li>Monitor for Federated notification of IPS violations</li> </ul>		<ul style="list-style-type: none"> <li>Review Compliance Report</li> <li>Perform independent verification of high risk parameters</li> <li>Review transactions</li> <li>Conduct FI-IOG meetings</li> <li>Review exceptions and/or develop action plans</li> <li>Provide recommendations to ED &amp; CIO</li> </ul>	<ul style="list-style-type: none"> <li>Review stress tests</li> </ul>	<ul style="list-style-type: none"> <li>Risk rank IPS parameters</li> <li>Assist with Audit</li> <li>IPS Review</li> </ul>	<ul style="list-style-type: none"> <li>Federated Onsite visits</li> <li>Conduct FI-IOG meetings</li> <li>Review exceptions and/or develop action plans</li> <li>Provide recommendations to ED &amp; CIO</li> </ul>
AHIC				<ul style="list-style-type: none"> <li>Report performance, risk and portfolio characteristics to IAC</li> </ul>	<ul style="list-style-type: none"> <li>Best practices report</li> <li>IPS Review</li> </ul>	<ul style="list-style-type: none"> <li>Federated Onsite visits</li> </ul>

Notes: Data sourced from Federated, Florida PRIME Investment Policy Statement and Compliance Program Procedures