

INVESTMENT POLICY

for

The Gulf Consortium

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I-1. SCOPE

This Policy was adopted using Florida Statutes Section 218.415 as a guideline and applies to all funds held by the Gulf Consortium in excess of those required to meet current expenses.

I-2. INVESTMENT OBJECTIVES

The primary objectives of all investment activities for the Gulf Consortium should be safety of principal, maintenance of adequate liquidity, and finally, return maximization.

- a. **Safety of Principal.** This is the foremost investment objective. Investment transactions should seek to keep capital losses to a minimum, whether the result of security defaults or erosion of market value. This is best insured by establishing minimum acceptable credit ratings, limiting overall portfolio duration, setting maximum exposures by sector, defining appropriate levels of diversification, and limiting exceptions.
- b. **Maintenance of Liquidity.** To meet the day-to-day operating needs of the Gulf Consortium and to provide the ready cash to meet unforeseen temporary cash requirements, a liquidity base of approximately at least three months of anticipated disbursements will be kept in relatively short-term investments. These would include investments in government pools with daily liquidity such as the Local Government Surplus Trust Fund and money market investments.
- c. **Return Maximization.** Return is of least importance compared to the safety and liquidity objectives above. Investments are limited to low risk securities in anticipation of earning a fair return relative to the risk being assumed. Extending the duration of investments to enhance investment returns can induce volatility and affect market value, which should be avoided.

I-3. STANDARDS OF CARE

- a. **Standards of Prudence.** The "Prudent Person" Rule shall be applied in the management of the overall investment portfolio. The "Prudent Person" Rule states: "Investments shall be made with judgment and care, under 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. The employees performing the investment functions, acting as a "prudent person" in accordance with established procedures and this Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that appropriate monitoring efforts are performed.

- b. **Ethical Standards.** Officers, employees and external investment advisors of the Gulf Consortium who are involved in the investment process shall refrain from personal business activity that could conflict with State Statutes, proper management of the investment portfolio or which could impair their ability to make impartial investment decisions. Investment officials and employees, including members of the Finance and Budget Committee, shall disclose any material financial interests in any investment firms, or financial institutions that conduct business with the Gulf Consortium or the member Counties and shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Gulf Consortium.
- c. **Limits of Liability.** Other than by an action of the Gulf Consortium, the Gulf Consortium shall provide for the defense and indemnification of any Committee member who is made a party to any suit or proceeding, or against whom a claim is asserted by reason of their actions taken within the scope of their service as an appointed member of this committee. Such indemnity shall extend to judgments, fines, and amounts paid in settlement of such claim suit, or proceeding, including any appeal thereof. This protection shall extend only to members who have acted in good faith and in a manner reasonably believed to be in, or not opposed to, the best interest of the Gulf Consortium.

I-4. AUTHORITY

Responsibility for the administration of the investment program is vested in the management firm hired by the Gulf Consortium. Management staff shall exercise this authority to invest surplus funds in accordance with Section 218.415, Florida Statutes. The Gulf Consortium Manager hereby delegates the day-to-day responsibility for the administration of the investment program to the Finance Director along with the Fiscal Agent. The Finance Director shall maintain controls in accordance with the Accounting and Financial Management Policy.

I-5. INVESTMENT OVERSIGHT COMMITTEE

The Board is responsible for setting guidelines for the investment of the portfolio through the adoption of this Investment Policy. The Finance and Budget Committee is charged with the responsibility to review this Policy on a regular basis and to recommend changes. The Finance Director will provide sufficiently detailed reports to the Committee in order for the Committee to review portfolio performance, and will propose portfolio benchmarks in order to judge the performance of the portfolio with respect to the market and other portfolios of similar size and limitations. The Committee will monitor the portfolio benchmarks. The Committee will provide the Board a report as of the close of the fiscal year recapping the performance of the portfolio and any external managers. The Board or the Committee may request additional meetings to discuss issues of concern or direction.

I-6. PROCUREMENT OF EXTERNAL INVESTMENT MANAGERS

The Gulf Consortium may, at its discretion, utilize external investment managers to assist with management of the portfolio. If used, external management may be employed in situations where, due to limitations in the areas of staff time or expertise, such outside resources would be in a better position to overcome such limitations. Securities purchased by the external manager on behalf of the Gulf Consortium, and other investments held by the fund, must follow the constraints identified by this Policy. The average duration of the funds managed by any one external manager on behalf of the Gulf Consortium as part of the portfolio shall not exceed two years. The Finance Director in their capacity as Chief Financial Officer of the Gulf Consortium shall oversee the selection of external managers through a competitive selection process (an RFP). The RFP committee will include Gulf Consortium and management staff along with investment experts from other governments or the community. In making this selection, consideration will be given to past investment performance, fees, assets under management, experience of the firm and the individuals managing portfolios of similar size, complexity and investment restrictions. Upon selection of an external manager, the Gulf Consortium Manager will execute a contract with the firm. External managers will be evaluated and retained based upon their investment performance, insight, advice on positioning the portfolio, and satisfactory discharging professional services provided for in the contract.

I-7. THIRD-PARTY CUSTODIAL AGREEMENTS

The Gulf Consortium Manager will execute a Third-Party Custodial Safekeeping Agreement with a depository chartered by the United States Government or the State of Florida. All securities purchased, and/or collateral obtained by the Gulf Consortium shall be properly

designated as an asset of the Gulf Consortium and held in an account separate from other assets held by the depository. No withdrawal of such securities, in whole or in part, shall be made from safekeeping except by authorized staff. The Gulf Consortium will enter into a formal agreement with an institution of such size and expertise as is necessary to provide the services needed to protect and secure the investment assets of the Gulf Consortium. Securities transactions between a broker-dealer and the custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. The Third-Party Custodial Safekeeping Agreement shall include letters of authority from the Gulf Consortium and details as to responsibilities of each party. These responsibilities include notification of security transactions, repurchase agreements, wire transfers, safekeeping and transactions costs, procedures in case of wire failure and other unforeseen mishaps, including the liability of each party.

I-8. INTERNAL CONTROLS

The Gulf Consortium shall establish and monitor a set of written internal controls designed to protect the Gulf Consortium's funds and ensure proper accounting and reporting of the securities transactions. The internal controls should be designed to prevent losses of funds, which might arise from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees. The written procedures should include reference to safekeeping, repurchase agreements, separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts, collateral/depository agreements, and "delivery-vs-payment" procedures. No person may engage in an investment transaction except as authorized under the terms of this policy. All daily investment activity is performed by the Fiscal Agent under supervision of the Finance Director. Pursuant to Section 218.415 (13), Florida Statutes, independent auditors as a normal part of the annual financial audit to the Gulf Consortium shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

I-9. POLICY REVIEW AND AMENDMENT

This Policy shall be reviewed annually by the Policy Committee and any recommended changes will be presented to the Board of Directors for adoption.

I-10. AUDITS

Certified public accountants conducting audits of units of local government pursuant to Section 218.39, Florida Statutes shall report, as part of the audit, whether or not the local government has complied with Section 218.415, Florida Statutes.

I-11. INVESTMENT PERFORMANCE AND REPORTING

An investment report shall be prepared by the Finance Director and provided to the Finance and Budget Committee at each meeting, covering the most recent quarter. The report shall include an analysis of the portfolio by sector, maturity, yield, as well as its overall performance during that period with sufficient detail for a comprehensive review of investment activity and performance. An annual report will be presented to the Board of Directors ("Board"), which shall include securities in the portfolio by sector, book value, income earned, market value and yield. Investment performance shall measure risk characteristics, portfolio size, sector allocations, and year-to-date earnings to an appropriate benchmark. The Finance Director shall be notified immediately of deviations from currently approved investment policies, who shall in turn notify the Finance Committee. In the event of a ratings agency downgrade to below the A or better requirement, a written notification and investment plan from the external manager must be submitted to the Finance Director. A forced or immediate sale of the downgraded asset is not required.

I-12. RISK DIVERSIFICATION AND PORTFOLIO COMPOSITION

The Gulf Consortium recognizes that investment risks can result from issuer defaults, market price changes, change in credit ratings, reinvestment of principal and interest, or various technical complications leading to temporary illiquidity. For purposes of this Policy, the top nationally recognized statistical ratings organizations (NRSROs) for all credit-sensitive securities are Moody's, Standard and Poor's, and Fitch. Portfolio diversification and maturity limitations are employed as primary methods of controlling risk. Market value shall be the basis for determining portfolio percentages and compliance with this Policy.

The average range of duration for the Gulf Consortium's overall portfolio, inclusive of internally and externally managed investments, is defined as 0.5 years to 2 years. Unusual market or economic conditions may mandate moving the portfolio outside of this range. The Finance and Budget Committee will be convened and will approve any portfolio duration outside of the range specified above.

I-13. AUTHORIZED INVESTMENTS

This section lists the authorized investments for the internal and external Gulf Consortium portfolios. Investments not listed in this policy are prohibited.

I-13.1 Internal Investment Portfolio

- a. The Local Government Surplus Trust Fund (Florida Prime), Florida Treasury Special Purpose Investment Account (SPIA), or any intergovernmental investment pools authorized pursuant to the Florida Interlocal Cooperation Act of 1969 as provided in Section 163.01 Florida Statutes.
- b. Investments are permitted in money market mutual funds with AAAM or AAAG ratings including Treasury Money Market Mutual Funds, Governmental Money Market Mutual Funds, and Prime Money Market Mutual Funds. These funds must exclusively comprise investment instruments authorized by this Policy. Importantly, they are restricted from engaging in derivative transactions.
- c. Interest-bearing time deposits or savings accounts in qualified public depositories as defined in Section 280.02 Florida Statutes. This includes, but is not limited to, time deposit accounts, demand deposit accounts, and non-negotiable certificates of deposit.

I-13.2 External Investment Portfolio

- d. Direct obligations of the United States Treasury. Investments may be made in negotiable direct obligations or obligations the principal and interest of which are unconditionally guaranteed by the United States Government.
- e. Federal Agencies and Instrumentalities. United States Government Agencies and sponsored agencies which are non-full faith and credit.
- f. Corporate Debt Securities. Investments may be made in securities issued by any U.S. corporation provided that such instrument is rated A or better by at least two NRSROs.
- g. Municipal Bonds. Investments may be made in securities issued by governmental entities or territorial boundaries of the United States provided that such instrument is rated A or better by at least two NRSROs.
- h. Repurchase Agreements. Investments whose underlying purchased securities consist of United States Treasury, Federal Agencies and/or Instrumentalities.

- i. Commercial Paper. Investments may be made in commercial paper of any United States company, which is rated at the time of purchase, "Prime-1" by Moody's and "A-1" by Standard & Poor's (prime commercial paper). Asset backed commercial paper is prohibited.

I-14. SUMMARY OF KEY LIMITATIONS ON AUTHORIZED INVESTMENTS

Exceeding percentage limits due to changes in portfolio balance will not require liquidation of any asset but will restrict further investing. Any changes to the portfolio composition guidelines or limits must be in writing from the Finance Director, directed to the appropriate parties and discussed at each Finance and Budget Committee meeting.

I-14.1 Additional Portfolio Limitations

- a. The limits for the Internally Managed portfolio apply to the combined internal and external portfolios.
- b. To the extent that an External Manager is used, the External Manager's limits apply to external portfolio.
- c. Portfolio securities may be purchased in either fixed or floating-rate form.
- d. All investments must be denominated in U.S. Dollars.
- e. Investments at the time of purchase are limited to an A rating or higher.