

City of Key West

Investment Policy Review

September 2024

706.207.9756 | pfmam.com

PFM Asset Management LLC

NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE

**PFMAM's Investment Policy Review Framework
consists of three components:**



Existing Investment Policy should include two missing sections and elaborate on pecuniary factors, as per Section 218.415 Florida Statutes Requirements

- ▶ Scope
- ▶ Investment Objectives
- ▶ Performance Measurement
- ▶ Prudence and Ethical Standards
- ▶ Listing of Authorized Investments
- ▶ Maturity and Liquidity Requirements
- ▶ Portfolio Composition
- ▶ **Risk and Diversification**
- ▶ Authorized Investment Institutions and Dealers
- ▶ Third-Party Custodial Agreements
- ▶ **Master Repurchase Agreement**
- ▶ Bid Requirement
- ▶ Internal Controls
- ▶ Continuing Education
- ▶ Reporting

Based on PFMAM's review, the existing Investment Policy should include the Investment Pools/Mutual Fund Questionnaire to be certified by the APT US & C* Investment Policy Requirements

- ▶ Policy/Purpose
- ▶ Scope
- ▶ Prudence
- ▶ Objective (Safety, Liquidity, Yield)
- ▶ Delegation of Authority
- ▶ Ethics and Conflict of Interest
- ▶ Authorized Financial Dealers and Institutions
- ▶ Authorized & Suitable Investments
- ▶ **Investment Pools/Mutual Fund Questionnaire**
- ▶ Collateralization
- ▶ Safekeeping and Custody
- ▶ Diversification
- ▶ Maximum Maturities
- ▶ Internal Control
- ▶ Performance Standards
- ▶ Reporting
- ▶ Investment Policy Adoption
- ▶ Glossary

Existing Investment Policy contains all the GFOA Investment Policy Best Practices recommendations

- ▶ Scope and investment objectives
- ▶ Roles, responsibilities, and standards of care
- ▶ Suitable and authorized investments
- ▶ Investment diversification
- ▶ Safekeeping, custody, and internal controls
- ▶ Authorized financial institutions, depositories, and broker/dealers
- ▶ Risk and performance standards
- ▶ Reporting and disclosure standards

City Sector Allocation Comparison

Sector	Key West (Current)	Key West (Draft)	Fort Lauderdale (2019)	Hallandale Beach (2020)	Sarasota (2018)	Melbourne (2015)	Miami (2015)	Palm Bay (2018)	Palm Beach (2017)	Delray Beach (2018)
SBA Florida PRIME	100%	25%	25%	25%	25%	25%	25%	25%	50%	25%
U.S. Treasuries	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Federal Agencies	50%	80%	100%	75%	75%	75%	75%	75%	75%	80%
Supranational Agencies	0%	25%	10%	25%	10%	25%	25%	25%	25%	25%
Agency MBS	0%	25%	25%	25%	25%	25%	25%	25%	25%	20%
Commercial Paper	25%	50%	35%	35%	35%	35%	35%	50%	50%	40%
Corporate Bonds	0%	50%	50%	35%	35%	35%	25%	50%	50%	40%
Municipal Obligations	20%	20%	25%	25%	25%	25%	25%	25%	25%	20%
ABS	0%	25%	0%	25%	10%	25%	10%	25%	25%	20%
SEC Registered Money Market Funds	50%	50%	50%	25%	50%	50%	25%	50%	50%	25%
Local Government Investment Pools	25%	75%	50%	50%	50%	50%	25%	50%	50%	45%

Proposed Permitted Investments and Requirements

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement ¹	Maximum Maturity
U.S. Treasury	100%	100%	N/A	5.50 Years (5.50 Years avg. life⁴ for GNMA)
GNMA		40%		
Other U.S. Government Guaranteed (e.g. AID, GTC)		10%		
Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB*	80%	40%³	N/A	5.50 Years
Federal Agency/GSE other than those above		10%		
Supranationals where U.S. is a shareholder and voting member	25%	5%	Highest ST or Highest LT Rating Categories (A-1/P-1, AAA/Aaa, or equivalent)	5.50 Years
Corporate Notes	50%²	5%	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3 or equivalent)	5.50 Years
Municipals	20%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)	5.50 Years
Agency Mortgage-Backed Securities (MBS)	25%	40%⁴	N/A	5.50 Years Avg. Life⁴
Asset-Backed Securities (ABS)	25%	5%	Highest ST or LT Rating (A-1+/P-1, AAA/Aaa, or equivalent)	5.50 Years Avg. Life⁴
Non-Negotiable Collateralized Bank Deposits or Savings Accounts	50%	25%	None, if fully collateralized.	1 Years
Commercial Paper (CP)	50%²	5%³	Highest ST Rating Category (A-1/P-1, or equivalent)	270 Days

Proposed investment policy changes appear in bold red text.

Proposed Permitted Investments and Requirements

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement ¹	Maximum Maturity
Repurchase Agreements (Repo or RP)	25%	10%	Counterparty (or if the counterparty is not rated by an NRSRO, then the counterparty's parent) must be rated in the Highest ST Rating Category (A-1/P-1, or equivalent) If the counterparty is a Federal Reserve Bank, no rating is required	1 Year
Money Market Funds (MMFs)	50%	25%	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A
Intergovernmental Pools (LGIPs)	75%	25%	Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP, (AAAm by S&P)	N/A
Florida Local Government Surplus Funds Trust Funds ("Florida Prime")	25%	N/A	Highest Fund Rating Categories by all NRSROs who rate the LGIP, (AAAm/AAAf, or equivalent)	N/A

Notes:

- 1 Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization ("NRSRO"), unless otherwise noted. ST=Short-term; LT=Long-term.
 - 2 Maximum allocation to all corporate and bank credit instruments is 50% combined.
 - 3 Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.
 - 4 The maturity limit for MBS and ABS is based on the expected average life at time of purchase, measured using Bloomberg or other industry standard methods.
 - 5 Issuer limits applies per fund; the funds' underlying securities are excluded from the policy's investment restrictions
- * Federal National Mortgage Association (FNMA); Federal Home Loan Mortgage Corporation (FHLMC); Federal Home Loan Bank or its District banks (FHLB); Federal Farm Credit Bank (FFCB).

Key Observations and Recommendations

- ▶ Add and update the missing sections under Section 218.415, Florida Statutes, and the Association of Public Treasurers of the U.S. and Canada.
 - ▶ In 2023, The Florida Legislature passed House Bill 3 (“HB3”) which, among other things, made changes to the investment statutes for local governments. The changes became effective July 1, 2023.
 - The changes require that investment decisions be based solely on “pecuniary factors.” The term does not include consideration of the furtherance of any social, political, or ideological interests. Changes can be seen in Section 218.415(24).
- ▶ Broaden allowable sectors to improve diversification and potential income.
 - ▶ New sectors include Supranationals, Corporate Notes, Asset-Backed Securities.
- ▶ Add ratings and issuer restrictions to LGIPs
- ▶ Add language to clearly define performance benchmarks for short-term and core portfolios.
- ▶ Expand maturity restrictions to 5.5 years, across most sectors.
 - ▶ Coinciding with this, putting weighted average life language around asset-backed and agency mortgage-backed securities (5.5 years).

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