

# **ANNUAL INVESTMENT REPORT**

FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2009

PREPARED BY  
BOB INZER  
CLERK OF COURTS

LEON COUNTY, FLORIDA

# ANNUAL INVESTMENT REPORT

for the Year Ended September 30  
Leon County, Florida

## EXECUTIVE SUMMARY

The County's investment Portfolio continued to perform generally, as expected. The Commission approved Investment Policy provides for a very conservatively managed portfolio. Policy controls related to portfolio duration, credit quality, liquidity and instrument selection effectively eliminates both the upside and downside surprises with respect to investment returns.

The portfolio earned \$8,433,285 for an effective rate of return of 3.71% on an average daily balance of \$227,590,639 in the fiscal year 2009. During this fiscal year the Federal Funds Rate continued to decline from 1.5% in October to 0.0 - 0.25% in December and are expected to remain at the level for the foreseeable future. Notwithstanding the low interest rates, the County's average portfolio return for Fiscal Year 2009 increased from 3.32% to 3.71%.

Section 218.415(15), Florida Statutes requires Leon County Clerk of Courts to provide an annual report to the Board of County Commissioners of the securities in the portfolio by investment type, book value, market value and income earned. This information included below in Table I is as of September 30, 2009.

<b>Table I As of September 30, 2009</b>						
<b><u>Investment Type</u></b>	<b><u>Book Value</u></b>	<b><u>Market Value</u></b>	<b><u>Unrealized Gain/Loss (Current Yr Portion)</u></b>	<b><u>Realized Gain/Loss</u></b>	<b><u>Interest</u></b>	<b><u>Total Income</u></b>
Voyageur Asset Mgmt	70,049,998	70,720,607	1,484,882	501,540	2,893,339	4,879,761
FI Municipal Investment Trust 0-2	30,134,303	30,134,303			134,303	134,303
FL Municipal Investment Trust 1-3	25,711,103	25,711,103			771,103	771,103
FI Local Govt Investment Trust	10,341,588	10,341,588			379,155	379,155
FI State Treasury SPIA	40,722,640	40,840,736	118,096		988,093	1,106,189
Money Markets	14,418,000	14,418,000			392,293	392,293
Certificates of Deposit	20,081,989	20,081,989			702,699	702,699
Wachovia Cash	7,108,158	7,108,158			67,780	67,780
Total Cash and Investments	\$218,567,770	\$219,356,485			\$6,328,767	\$8,433,285

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## **Investment Oversight Committee**

The Board of County Commissioners in their Investment Policy provides for an Investment Oversight Committee to work with the Clerk of the Court in the investment of the portfolio. The Committee meets quarterly unless interim issues require more frequent meetings. Meetings are noticed; open to the public and minutes of each meeting recorded. The IOC consists of the Clerk; the County Administrator Designee, Assistant County Administrator Alan Rosenzweig; and three qualified individuals with financial or investment expertise who are independent of employment and business relationships with Leon County. They are Stan Barnes, Managing Partner, Allen Mooney & Barnes Investment Advisors, LLC, Marvin M. Garland, COO for FCUL Service Group and CFO of the Florida Credit Union League & Affiliates, and Dr. John Lawrence, retired Public Administrator.

As a result of the deteriorating market conditions throughout the 2007 fiscal year, the Investment Oversight Committee recommended a complete review and update of County's Investment Policy. The revised policy was adopted by the Board on September 2, 2008. The portfolio has been managed within these guidelines and limitations of the Investment Oversight Committee recommendations and the Commission approved policy without exception.

## **Economy**

During the August 2009 meeting of the Federal Open Market Committee meeting, the existing Federal Funds rate of 0 to 1/4 percent was maintained. Later the FOMC released a statement noting that information received since August suggests that economic activity has picked up following its severe downturn. The statement included: "Although economic activity is likely to remain weak for a time, the Committee anticipates that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will support a strengthening of economic growth and a gradual return to higher levels of resource utilization in a context of price stability."

The Committee indicated that they will continue to employ a wide range of tools to promote economic recovery and to preserve price stability. Specifically, the Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and expects the exceptionally low levels of the Federal Funds rate to continue for an extended period. Further, the Federal Reserve will continue through the first quarter of 2010 to shore up mortgage lending and housing markets and improve conditions in private credit markets by purchasing agency mortgage-backed securities and agency debt. The FOMC statement concluded with "The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and

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conditions in financial markets. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.”

### **Investment Managers**

The investment portfolio end of month balances ranged from \$192 million to \$255 million during the year, with higher balances during the winter as taxes are received from the Leon County Tax Collector. The portfolio was allocated among the following government pools: Florida Treasury Special Purpose Investment Account, Florida Local Government Investment Trust (FLGIT) and the Florida Municipal Investment Trust (FMIvT). The external manager, Voyager Asset Management, invested 30% of the portfolio in slightly longer term investments. The balance of the portfolio was invested in money markets and certificates of deposit.

The County through an RFP selected Voyager to manage a separately managed intermediate term fixed income portfolio. Currently, the dollars under management are approximately \$70,000,000. Intermediate fixed income portfolios have durations of 1.5-1.8 years. The established benchmark for Voyager is the Merrill Lynch 1-3 year Government Index.

The Clerk established its banking relationships pursuant to a competitive selection process. During the year, an investment option was implemented that requires the bank to invest each night excess funds in Government Municipal Money Market fund. This relationship also is a time saver for staff in that each night we are not required to move money into and out of the bank in order for funds to be invested.

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Table II										
	FY 2005		FY 2006		FY2007		FY2008		FY2009	
	<u>Average Daily</u>	<u>Total Return</u>								
<u>Investment Type</u>	<u>Balance</u>									
Voyageur Portfolio Manager Account	\$66,983,406	1.48%	\$64,300,643	4.04%	\$63,330,518	5.45%	\$65,354,441	3.58%	69,894,730	7.21%
Florida Municipal Investment Trust 1-3 YEARS							7,193,805	3.85%	13,419,127	5.59%
Florida Municipal Investment Trust 0-2 YEARS									1,405,791	1.89%
Florida Local Gov Investment Trust							2,459,689	-1.10%	10,079,565	3.76%
Certificates of Deposit							33,685,448	4.22%	26,244,586	2.47%
Florida Treasury SPIA							11,326,933	3.44%	41,062,565	2.43%
State Board of Administration Pool	93,492,220	2.72%	129,126,804	4.97%	124,690,276	5.41%	10,323,105	4.55%		-
Money Market-Variou							51,664,471	2.31%	52,271,096	0.75%
Wachovia Cash Pool	11,101,482	2.62%	15,280,203	4.80%	18,928,028	5.32%	42,020,212	3.55%	13,213,180	0.53%
Total Daily Average	\$171,577,108		\$208,707,650		\$206,948,822		224,028,104		\$226,017,965	
<b>Rate of Return (Table I Income/ ave. daily bal.)</b>		2.60%		4.50%		5.36%		3.32%		3.71%

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## **I. INVESTMENT POLICY**

Section 218.415, Florida Statutes provides units of local government the ability to adopt a written investment plan to govern the investment of their investment portfolio. The Leon County Board of County Commissioners on September 17, 2002 adopted an investment policy. It provides for among other things, an annual report to be presented to the Board of County Commissioners. On September 2, 2008 the Board adopted revisions to the Policy to provide the flexibility to manage the portfolio in the volatile market environment. The portfolio has been managed within the guidelines and limitations of the Investment Oversight Committee recommendations and Commission approved policy without exception.

The Florida Constitution provides that the Clerk of the Court will be responsible for the investment of County funds and this report is being submitted by the Clerk as provided by the Board's Investment Policy. All investment activity is conducted in accordance with written procedures and internal controls.

## **II. INVESTMENT OVERSIGHT COMMITTEE**

The Investment Oversight Committee (IOC) was established by the Leon County Clerk of Courts (Clerk) to formulate investment strategies, provide short-range direction and monitor the performance and structure of the County's portfolio. The IOC consists of the Clerk; the County Administrator Designee, Assistant County Administrator Alan Rosenzweig; and three qualified individuals with financial or investment expertise who are independent of employment and business relationships with Leon County. They are Stan Barnes, Managing Partner, Allen Mooney & Barnes Investment Advisors, LLC, Marvin M. Garland, COO for FCUL Service Group and CFO of the Florida Credit Union League & Affiliates, and Dr. John Lawrence, retired Public Administrator.

## **III. ACTIVITIES OF THE INVESTMENT OVERSIGHT COMMITTEE**

The Investment Oversight Committee (IOC) scheduled periodic meetings to discuss issues relating to the investments of the County. The IOC will establish 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 established benchmark for the external manager, Voyageur, is the Merrill Lynch 1-3 year Government Index and is composed of 100% Treasury and Agency securities. In addition, an informational benchmark that was tailored similar to the portfolio current style of investment was added to reports beginning in the prior fiscal year.

## **IV. INVESTMENT OBJECTIVES**

The Policy states that the primary objectives of all investment activities for the County should be safety of principal, maintenance of adequate liquidity and finally, return maximization.

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Safety of principal 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 the portfolio's overall duration, setting maximum exposures by sector, defining appropriate levels of diversification and authorized transactions and limiting exceptions.

The second objective is the provision of sufficient **liquidity**. A portion of the County's overall portfolio should be maintained very liquid in order to meet operating, payroll and ongoing capital requirements. Maintaining a core level of assets with the government pools such as the Treasury Special Purpose Investment Account (SPIA) or other short-term entities is viewed as the best way of maintaining secure asset values with sound investment practices. The remainder of the overall portfolio should be managed in such a manner that funds can be liquidated in a reasonable amount of time, recognizing that there are other sources for day-to-day liquidity and that this portfolio is primarily available for income generation within the constraints of this policy.

**Maximizing yield** on the portfolio is of least importance compared to the safety and liquidity objectives above. Return maximization is to be guided by the predefined and acceptable levels of risk as defined in this policy.

### V. PORTFOLIO PERFORMANCE

The portfolio earned \$8,433,285 for an effective rate of return of 3.71% on an average daily balance of \$227,590,639 in the fiscal year. Acceptable portfolio performance is the result of balancing the rewards of investing, or the income earned, with the risks associated with those investments. Factors influencing the portfolio's performance are the types of permitted investments and allowable maturities, liquidity requirements, overall interest rate environment, cash flows, and the investment manager's performance.

For comparison, the portfolio earned \$7,427,338 for an effective rate of return of 3.32% on an average daily balance of \$224,028,095 in the fiscal year 2008. The effective rate of return for fiscal year 2009 is higher than that for fiscal year 2008 because of the investment manager's performance with the external portfolio and a reallocation of assets in the internal pool to increase the investment in State Treasury Investment Pool and the Florida Municipal Investment Trust 1-3 year high quality bond fund.

The Following is an Overall Market and Portfolio Specific Commentary Provided by the County's Investment Advisor Voyager Asset Management, Inc.

Leon County's investment portfolio managed by Voyager outperformed its comparative benchmark, the Merrill Lynch 1-3 Year Government Index, for the fiscal year ending September 30, 2009. The portfolio produced a total return, net of fees, of 7.21% compared to the Index return of 4.27%, which includes no fee charges.

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The investment philosophy utilized in the Leon County portfolio is based on a belief that a portfolio's earned income advantage will dominate market price changes as the major source of outperformance over broad periods of time. In some short periods of time, like 2008, negative price changes will dominate total return performance.

Based on our investment philosophy, Voyageur strategically invests the County's portfolio in a diversified manner, but generally invests in non-government guaranteed sectors, such as Treasury, Agencies and Agency MBS, which in many cases are outside of the comparable benchmark. Our heavy emphasis on non-government guaranteed sectors is combined with strong portfolio risk controls (diversification across sectors, issuers and issues as well as minimal duration deviations versus the benchmark) and a disciplined underwriting process carried out by our experienced team of professionals.

This year's strong performance was due to, among other factors, the result of Voyageur maintaining, and in some cases increasing portfolio risk levels through the weak markets during 2008. When combined with a sharp shift by investors toward assets incorporated in the County's portfolio, the strategy produced a return in fiscal 2009 sufficiently above the benchmark, net of fees, to more than offset last year's underperformance. At the end of the 2009 fiscal year, total return performance, net of fees, of the County's portfolio managed by Voyageur exceeded its comparative benchmark over 1, 3, 5, 10 and since inception measurement periods.

## VI. PERMITTED INVESTMENTS AND ALLOWABLE MATURITIES

Table 1 summarizes the permitted investments, composition limits and maximum allowable maturities. The County's available funds are invested according to Leon County Investment Policy Section XIV, which authorizes the County to invest in specific permitted investment types. The permitted investments are restricted by the Policy in their composition limits and maximum allowable maturities. The portfolio was in compliance with all policy limits. The Policy permits maturities of the operating portfolio establishing a range of 60 days to 10 years. The actual portfolio will have a range of 0.5 years to 2.5 years, with an average duration of 1.5 years. Table 1 gives a brief description of each investment type. It is generally regarded that the following investment types are safe investments and meet the Policy's first objective: safety.

<b>Table 1 – Permitted Investments</b>		
<b><u>Investment Type</u></b>	<b><u>Composition Limit</u></b>	<b><u>Max Maturity/ WAL Limit</u></b>
Repurchase Agreements	15%, 5% any one issuer	60 Days
Bankers' Acceptances	15%, 5% any one issuer	270 Days
Commercial Paper	20%, 5% any one issuer	270 Days
CDs	30%, 10% any one issuer	2-Year, 1-Year Avg
Agencies	100%, 20% any one issuer	5-Year
Instrumentalities	45%, 15% any one issuer	5-Year

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Corporate Debt	25%, 3% any one issuer	5-Year
Municipal Obligations	35%, 3% any one issuer	5-Year
Mortgage Backed Securities	35%, 5% any one issuer	5-Year WAL
Asset Backed Securities	5%, 1.5% any one issuer	5-Year WAL
Commercial Mortgage Backed Securities	8% , 3% any one issuer	5-Year WAL
Treasuries	100%	10-Year
SPIA, FLGIT or FMIT	15% each	NA
SBA	50%	NA
Money Markets	100%	NA

### A. U.S. Treasury Securities (Treasuries)

The securities comprising Treasuries are direct obligations of the U.S. Government. The securities are designated by maturity. Treasury bills have maturities of one year or less, Treasury notes have maturities of two to ten years, and Treasury bonds have maturities of more than ten years. The longer maturities share some market risk in that their prices may be more volatile due to interest rate fluctuations. Treasury yields are typically lower than yields of other U.S. Government securities. The investment policy allows the County to invest up to 100% of the portfolio in these investments.

### B. Federal Agency Securities (Agencies)

Agencies are securities issued by agencies of, and are guaranteed directly by, the U.S. Government. The Policy limits Agency investments to bonds, debentures or notes issued or guaranteed by United States Government agencies, provided such obligations are backed by the full faith and credit of the United States Government. Such securities are limited to the following: Small Business Administration, United States Department of Agriculture, United States Export-Import Bank, direct obligations or fully guaranteed certificates of beneficial ownership, Farms Home Administration, Federal Financing Bank, Federal Housing Administration Debentures, General Services Administration Participation Certificates, United States Maritime Administration Guaranteed, Title XI Financing, New Communities Debentures, United States Government guaranteed debentures, U. S. Public Housing Notes and Bonds, U.S. Government guaranteed public housing notes and bonds, U. S. Department of Housing and Urban Development Project notes and local authority bonds. Agencies are typically longer term and not frequently traded, creating some liquidity risk. Agency yields are generally greater than Treasury yields of similar maturities. A maximum of 20% of the portfolio may be invested in any one agency and an aggregate of up to 100%.

### C. Federal Agency Securities (Instrumentalities)

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Instrumentalities are also securities issued by agencies, which are sponsored by the U.S. Government. The Policy allows purchases of bonds, debentures or notes issued or guaranteed by United States Government sponsored agencies (Federal Instrumentalities) which are non-full faith and credit agencies limited to the following: Federal Farm Credit Bank (FFCB), Federal Home Loan Bank or its district banks (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) including participation certificates, Tennessee Valley Authority (TVA). Yields on Instrumentalities are typically greater than Treasury yields of similar maturities. The Policy further restricts investments in any one agency to 15% of the portfolio and an aggregate of 45% of the portfolio.

### **D. Non-Negotiable Interest Bearing Time Certificates of Deposit**

Investments may be made in non-negotiable interest-bearing time certificates of deposit or savings accounts in banks organized under the laws of this state and/or in national banks organized under the laws of the United States and doing business and situated in this state, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes and provided that the bank is not listed with any recognized credit watch information service. A maximum of 30% of the portfolio may be invested in non-negotiable interest bearing time certificates of deposit or savings accounts.

### **F. Repurchase Agreements (Repos)**

A repurchase agreement is a financial transaction in which Leon County exchanges cash for ownership of specific securities with a simultaneous agreement to sell back the securities. Overnight repos mature in one day. Other repos are written to mature in specific multi-day periods and are known as term repurchase agreements. Other repos are written as open transactions with indefinite terms subject to liquidation by either party. Yields tend to run close to the federal funds rate. The Policy calls for the specific securities to be only those Treasuries or Instrumentalities allowed by the Policy with maturities. The collateral held pursuant to a repurchase agreement shall have a maturity under five years and having a market value of 102% during the term. Leon County will enter into a repo transaction only with qualified financial institutions, which have executed a Master Repurchase Agreement with the Clerk's Office. The Policy further restricts transactions with any one financial institution to 5% of the portfolio, except for one-business day repos, with a maximum of 15%.

### **G. Bankers' Acceptances (BAs)**

Bankers' Acceptances are generally bearer form securities comprised of underlying letters of credit used to finance international trade. A bankers' acceptance is created from a letter of credit issued by an importer's bank to pay a foreign exporter for goods expected to be received. The exporter will normally present this letter of credit to its bank for a discounted payment. The exporter's

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bank then presents the letter of credit to an U.S. correspondent bank for payment at which time it is marked "Accepted". Upon acceptance, the BA becomes an irrevocable and unconditional obligation of the accepting bank and it is also an obligation of the importer and any endorser thereof. BAs typically have maturities of 180 days or less. Yields are generally greater than Treasuries and Instrumentalities of similar maturity. The Policy requires bankers' acceptances which are inventory based and issued by a bank, which has at the time of purchase, an unsecured, uninsured and un-guaranteed obligation rating of at least "Prime-1" and "A" by Moody's and "A-1" and "A" by Standard & Poor's. The Policy further restricts the investment with any one financial institution to 5% of the portfolio and an aggregate of 15% of the portfolio.

### H. Commercial Paper (CP)

Commercial paper is unsecured short-term debt issued primarily by corporations to finance receivables and other short-term needs. CP has a maximum maturity of 270 days or less. Yields are typically greater than Treasuries and Instrumentalities of similar maturity. The Policy requires the issuer to be rated Prime-1 by Moody's Investor's Service and A-1 by Standard & Poor's, and, if backed by a letter of credit, the credit provider must be ranked in the top fifty U.S. banks by the American Banker's yearly report. The Policy further restricts the investment with any one financial institution to 5% of the portfolio and an aggregate of 20% of the portfolio.

### I. Municipal Obligations (Munis)

Investments may be made in notes or bonds issued by governmental entities or territorial boundaries of the United States, provided that such instrument is rated A or better by at least one NRSRO.

### J. Constant Net Asset Value Money Market Mutual Funds

Money markets are pools of securities providing income and liquidity. The Policy enables the Clerk to invest in SEC qualified constant net asset value fixed income money market mutual funds rated AAAM or AAAg comprised of only those investment instruments as authorized in this Section XIV, Portfolio Composition, provided that such funds do not allow derivatives. The average maturity of the underlying investments may not exceed one year. A maximum of 100% of the portfolio may be invested in money markets.

### K. The Florida Local Government Investment Trust Government Fund (FLGIT)

The FLGIT is a local government investment pool created by the Florida Association of Court Clerks and Clerk, and the Florida Association of County's for the purpose of providing public entities with an investment program that focuses on longer term securities with the highest credit ratings. The effective maturity of the underlying investments is five years or less. At year end, the

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FLGIT was invested in money markets, Treasury Notes, asset-backed securities, and Federal agency obligations. This investment type is subject to some market risk due to fluctuating prices and liquidity risk due to advance redemption notification requirements. However, it has a professional investment advisor and an investment advisory board, and provides diversity in the Fund's portfolio. The FLGIT maintains a credit rating of AAA by Standard & Poor's. Investments in this pool are limited to a maximum of 15% of the portfolio.

### **L. First Municipal Investment Trust (FMIT) 1- 3 Year High Quality Bond Fund.**

The FMIT is a similar investment pool operated by the Florida League of Cities. Its rating, investment parameters and liquidity generally mirror those of the FLGIT. The 1 to 3 Year High Quality Bond Fund is designed to provide an investment pool alternative to those Members that have excess funds and that have an investment horizon greater than that of money market instruments. The investment objective is: 1) to preserve capital; 2) achieve a total rate of return that exceeds the return of T-Bills by 1% per year over rolling three-year periods; and 3) exceed the return of the Merrill Lynch One-to Three-year Government Index over three-year periods. The Portfolio will generally invest in securities with greater potential returns and risk than those offered by money market type instruments. Due to the fact that the Portfolio will be investing in securities with an average maturity of approximately two years, increases in interest rates will cause declines in the net asset value of the Portfolio. Therefore, the Portfolio may be an inappropriate investment for funds required to meet short-term needs. Investments in any government pool are limited to a maximum of 15% of the portfolio.

### **M. First Municipal Investment Trust (FMIT) 0 - 2 Year High Quality Bond Fund**

During the fiscal year, the County reallocated a portion of investments from money markets to this Bond Fund also operated by the Florida League of Cities. This Fund which was established in April 2009 invests in Government and high quality securities while maintaining an average maturity of approximately one year. The performance of the portfolio is measured against the Merrill Lynch 1 Year Treasury Note Index. The portfolio is managed by Atlanta Capital Management. Investments in any government pool are limited to a maximum of 15% of the portfolio.

### **N. Special Purpose Investment Trust (SPIA)**

Effective July 1, 2004, Section 17.61(1), Florida Statutes was amended to permit organizations created by the Florida Constitution to participate in the existing State Treasury Investment Pool "Special Purpose Investment Account (SPIA)." Historically, SPIA participants have received higher earnings reflecting the higher risk associated with the longer maturities and lower credit quality. The Board of County Commissioners approved revisions to the County's Investment Policy effective January 11, 2005, to permit up to 15% of the County portfolio to be

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invested with the Treasury Special Purpose Investment Account (SPIA). The financial details and disclosures for the Treasury Investment Pool are made in Note 2 to the State of Florida Comprehensive Annual Financial Report (CAFR). As of September 30, 2009, the Treasury Investment Pool (Pool) earned \$32,141,821.75 in September, inclusive of \$2,293,348.85 in net realized losses. This converts to an annualized gross return of 2.6396% and compares to short term returns of less than 1%. The Pool's fair value factor was 1.0029 for September. A factor greater than 1.0000 provides that the market value of the Pool's investments is greater than the funds invested in the Pool.

### **VII. LIQUIDITY REQUIREMENTS**

The second objective in managing the County's investments is the provision of sufficient liquidity. On a regular basis, the County's receipts and disbursements are analyzed to determine trends in cash inflow and outflow. Cash inflows are invested immediately upon receipt and become part of the portfolio. The portfolio provides cash for weekly payment of operating and capital expenditures, biweekly payment of payroll expenditures, and semiannual debt service payments. Debt service payments are funded through sinking funds held by the County.

### **VIII. INVESTMENT OPERATIONS**

Investing activities are conducted by the investment advisor and qualified professionals in the Clerk's Office in accordance with Florida Statutes, County Ordinances, and written policies and procedures. Monthly reports of investment activity and positions are prepared and distributed to management of the Clerk's Office, management of the BCC and the Investment Oversight Committee. Regular meetings of the IOC are held to monitor the portfolio, evaluate investment performance and discuss investment strategies.

The investment advisor and Clerk staff use sophisticated techniques in carrying out its investment activities including the use of electronic bank and trust account systems; electronic funds transfer; on-line, real-time monitoring of U.S. securities markets; and electronic trading. Bank account balances, cash requirements, investment positions and trust account activity are determined daily. Current conditions and evaluations of national economic activity are considered in making asset allocation decisions.

#### **A. Portfolio Balances**

The portfolio's ending balance for fiscal year 2009 was \$219,356,485 while the ending balance for fiscal year 2008 was \$202,586,703, an increase of \$16,769,782. The increase in year-end balances from fiscal year 2008 to 2009 is attributable to several factors including: the continuance of a hiring freeze, the accumulation of funds for capital construction projects, the return of greater than anticipated excess fees from the Constitutional Officers, and higher interest earnings. The Board has

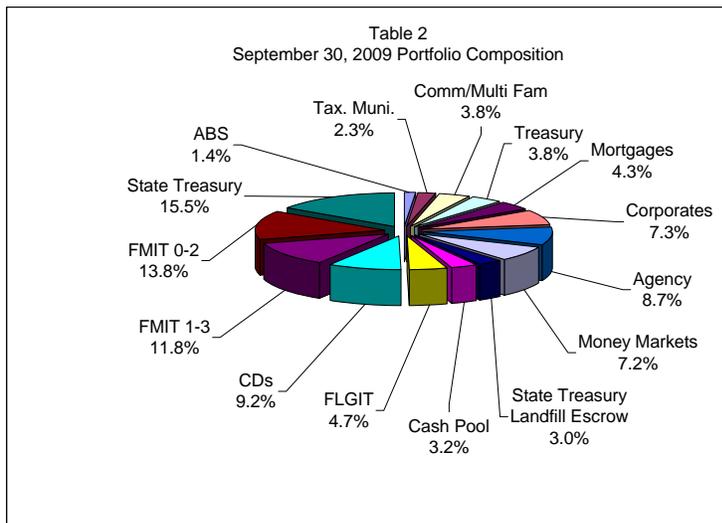
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set aside capital construction funds for mandatory and capital maintenance needs through FY 2012. Additionally, the Board has fully funded a joint dispatch center (\$23.2 million) and approved local economic stimulus package that includes the construction of two libraries, the expansion of the remaining three, and the completion of Buck Lake Road (\$14.3 million). As these capital funds are drawn down over the next fiscal year, the average daily balance for interest earnings in the portfolio should decline.

## B. Portfolio Composition

As of September 30, 2009, the portfolio was fully invested in permitted investments within allowable composition limits. The portfolio was managed in compliance with the Policy which requires the portfolio to be diversified by investment type.



## B. Portfolio Maturities

Portfolio management was also accomplished in compliance with the Policy that requires ensuring sufficient liquidity as well as diversity in maturities. Shown in Table 4 are the average terms of each investment type acquired in fiscal years 2009 and 2008. Average term is the average number of days from purchase to maturity of the investment. Average terms greater than one year represent investments of non-current funds, including the non-current operating portfolio, and investments of bond proceeds and debt service reserve funds. The Voyager managed portfolio was invested for a weighted average term of 693 days in fiscal year 2009, as compared with a weighted average term of 944 days in fiscal year 2008.

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Table 3 – Average Term by Investment Type

<u>Investment Type</u>	<u>FY 2009</u>	<u>FY 2008</u>
Mortgages	1092 days	1442 days
Treasuries	595 days	1285 days
Cml/Multi	840 days	1234 days
Corporates	773 days	964 days
ABS	456 days	704 days
CD	90 days	240 days
Agencies	759 days	402 days
Taxable Munis	515 days	376 days
Florida Municipal Inv. Trust	NA	NA
Fl Local Govt. Inv. Trust	NA	NA
Fl. Special Purpose Inv. Acct	NA	NA
Money Markets	NA	NA

### D. Earnings and Yields

The portfolio earned \$8,433,285 for an effective rate of return of 3.71% on an average daily balance of \$227,590,639 in the fiscal year. This year Federal Funds Rate continued to decline from 1.5% in October to 0.0% - .25% in December and are expected to remain at the level for the foreseeable future. Notwithstanding the decline in interest rates, the County's average portfolio return for Fiscal Year 2009 increased from 3.32% to 3.71%. This increase is attributed to the expertise of the external investment manager and an increase in allocation of the internal portfolio to government pools.

The dollar amount of earnings is used in historical and budgetary comparisons, and in cash flow analysis. The portfolio earned \$8,433,285 on its invested principal in fiscal year 2009. For comparison, the portfolio earned \$7,427,338 on its invested principal in fiscal year 2008. Actual earnings exceeded budget in fiscal year 2008 by \$3,367,303 and in fiscal year 2009 by \$5,008,585 as shown in the following Table 4.

Table 4 - Budget and Actual Income

	<u>FY 2009</u>	<u>FY 2008</u>
Actual	\$8,433,285	\$7,427,338
Budget	3,424,700	4,060,035
Variance	\$5,008,585	\$3,367,303

## ANNUAL INVESTMENT REPORT

for the Year Ended September 30  
Leon County, Florida

### IX. CONCLUSION

In conclusion, the results outlined in the Annual Investment Report are as follows:

- The investment portfolio is in full compliance with the Investment Policy.
- Total portfolio return was above that of last fiscal year due to the expertise of the external manager and the increase in allocation of internal portfolio to government pools.
- Notwithstanding the highly volatile economic environment, there was a significant gain in principal totaling \$1,602,978 for the \$219,356,485 portfolio.

#### Investment Oversight Committee

Due to the turbulent market conditions continuing during the fiscal year, the Investment Oversight Committee recommended at the February 2nd, 2009 meeting that the Clerk send an interim report to the Board preceding this Annual Report. The Clerk solicited input from the Committee and prepared a final report with the assistance of the Chairman highlighting the County's status regarding invested funds.

Pursuant to investment policy requires staff to notify the IOC at any time holdings drop below the minimum credit ratings required by the policy. The IOC will then consider the market environment and make recommendations to hold and continue to monitor the investments or liquidate the investments. Accordingly, throughout the fiscal year the IOC monitored closely the performance of eight asset backed securities and were provided detailed reports from the external manager. The external manager came to Tallahassee to meet with the IOC in July. Steve Eldredge gave an overview of the County's portfolio and its performance for the period ending June 30, 2009.

Because of various factors including the performance of collateral to date, absence of losses to date, presence of mid-tier insurance wrap, positive characteristics of the underlying collateral, or severe liquidity penalty currently being applied in the market, the external manager continues to recommend holding 6 of the 8 securities, while two were sold earlier in the year. As of the October 31, 2009 the difference between original cost totaling \$2.3 million and current market of \$1.85 million, for the remaining six securities is about \$450,000 which represents about 0.6% of the \$70.5 million dollar portfolio.

Presented by:

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Stan Barnes, Chairman  
Investment Oversight Committee

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Bob Inzer, Clerk of the Circuit Courts  
Leon County, Florida