

# State Board of Administration Investment Portfolio Guidelines

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**Portfolio Names:**

Florida Hurricane Catastrophe Fund (FHCF)

Florida Hurricane Catastrophe Fund Finance Corporation  
now known as the State Board of Administration Finance  
Corporation-Pre-Event Liquidity Fund (Corporation)

**Bank Account IDs and Names:**

FMXFC030012 FL HURRICANE CAT FD

FMXFC036052 CAT FUND 2013A

**Effective Date:**

January 1, 2015

1/6/15  
Approved by Chief Operating Officer,  
Florida Hurricane Catastrophe Fund

  
Approval Date

1/9/15  
Approval by Executive Director & CIO

1/9/15  
Approval Date

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**Funds:** Florida Hurricane Catastrophe Fund

Florida Hurricane Catastrophe Fund Finance Corporation now known as the  
State Board of Administration Finance Corporation-Pre-Event Liquidity Fund

**Asset Class:** Fixed Income

**Asset Class (Portfolio Mgmt.):** Fixed Income

**Funding/Defunding Authorized by:** Florida Hurricane Catastrophe Fund Management

**Portfolio Attributes:** Active/Internal/Separately Managed

**Securities Lending:** Not Permitted

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**Accredited Investor (Total Assets >\$5 Million):** Yes

**Qualified Purchaser (Total Assets ≥ \$25 Million):** Yes

**Qualified Institutional Buyer (QIB):** No

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**Benchmark:** Blend of 75% of the Bank of America Merrill Lynch 1-Year U.S. Treasury Bill Index and 25% of the iMoneyNet First Tier Institutional Money Market Funds Net Index. The benchmark for a portion of the account will change when that portion of the account required to meet distributions is maturing within 6 months. This portion of the benchmark will be taken out of the Bank of America

Merrill Lynch 1-Year U.S. Treasury Bill Index and will be replaced with the Bank of America Merrill Lynch 3-Month U.S. Treasury Bill Index.

Portfolios will be evaluated to the above benchmark beginning October 1, 2014. The prior benchmark, a blend of 50% of the 3-month Treasury Bill average and 50% of the iMoneyNet First Tier Institutional Money Market Funds Net Index, will be used through September 30, 2014.

Style:	Short-term Active
Risk Profile:	Traditional Active
Leverage:	Not Permitted

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Approved Exchanges: N/A

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**Limits/Constraints/Monitoring Standards (at the time of purchase):**

All securities purchased must be consistent with Section 215.47 of the Florida Statutes. Further:

- (1) The SBA has determined that the FHCF constitutes (i) an “accredited investor” as defined in Rule 501(a)(7) promulgated under the Securities Act of 1933; as amended (the “Securities Act”), as long as the FHCF has total assets in excess of \$5,000,000 and (ii) a “qualified purchaser” as defined in Section 2(a)(51)(A)(iv) of the Investment Company Act of 1940, as amended as long as the FHCF in the aggregate owns and invests on a discretionary basis not less than \$25,000,000 in investments, but does not constitute a “qualified institutional buyer” as defined by the United States Securities and Exchange Commission in Rule 144(a)(1) promulgated under the Securities Act of 1933. The SBA is restricted from purchasing or acquiring securities or investments on behalf of the FHCF that would require the FHCF to represent in connection with such purchase or acquisition that it is a “qualified institutional buyer” as defined in Rule 144A(a)(1) promulgated under the Securities Act.
- (2) The SBA has determined that the Corporation constitutes (i) an “accredited investor” as defined in Rule 501(a)(7) promulgated under the Securities Act of 1933; as amended (the “Securities Act”), as long as the Corporation has total assets in excess of \$5,000,000 and (ii) a “qualified purchaser” as defined in Section 2(a)(51)(A)(iv) of the Investment Company Act of 1940, as amended as long as the Corporation in the aggregate owns and invests on a discretionary basis not less than \$25,000,000 in investments, but does not constitute a “qualified institutional buyer” as defined by the United States Securities and Exchange Commission in Rule 144(a)(1) promulgated under the Securities Act of 1933. The SBA is restricted from purchasing or acquiring securities or investments on behalf of the Corporation that would require the Corporation to represent in connection with such purchase or acquisition that it is a “qualified institutional buyer” as defined in Rule 144A(a)(1) promulgated under the Securities Act.

**Credit Quality**

- The SBA will manage credit risk by maintaining a Short-Term Approved List of issuers, programs, and securities.
  - Inclusion on the Short-Term Approved List requires consent of both the Senior Portfolio Manager–Short-term and the Senior Portfolio Manager–Investment Grade Credit, with at least annual written approval of the Short-term Approved List by the Senior Investment Officer–Fixed Income (SIO-FI).

- The SBA will monitor the credit risks of all portfolio securities on an ongoing basis by reviewing periodic financial data, issuer news and developments, ratings by certain nationally recognized statistical rating organizations as outlined below, liquidity and/or credit enhancement structures, and pledged underlying credit support as stipulated in the transaction documents for securities.
- The SIO-FI is responsible for maintaining documentation supporting the Short-Term Approved List and for communicating the list and any changes to SBA Risk Management and Compliance. All investments except for Treasury and Agency Securities, Repurchase Agreements, Custodian Cash Sweep Vehicles and Money Market Mutual Funds must be on the Short-Term Approved List and have the credit ratings required under this IPG.
- Unrated Securities
  - If the security is a new issue, it can be purchased if it has at least two expected or provisional ratings.
  - If rating information is not available on Bloomberg, written communication from a participating dealer or a Term Sheet can be used to document the security's ratings and must be obtainable within T+1.
  - The security must have two final ratings by 20 business days after issuance date. If the security does not have two final ratings by the end of 20 business days, it will either be sold within 5 business days or held with approval from the Executive Director & CIO.
  - Any unrated security issued by a Sovereign or International Financial Institution will be considered to be rated pari passu with the issuer's rated bonds, provided that the unrated security occupies a similar position in the issuer's capital structure or is written from the same program (i.e., the unrated and rated securities are similar in terms of seniority or both are issued from the same program, such as a discount note program).

#### Issuer Diversification

- The maximum exposure to a single issuer (determined by the guarantor) is 3% of total portfolio amortized cost, excluding Government Securities, Repurchase Agreements, Money Market Mutual Funds and Custodian Cash Sweep Vehicles. The maximum may be increased to 5% due to delayed delivery transactions, as long as the concentration is reduced to 3% or less within 5 business days. This constraint will go into full effect beginning October 1, 2014.

#### Maturity

- The maximum portfolio Weighted Average Life (to final maturity) is 540 days.
- The maximum portfolio Dollar Weighted Average Maturity (to reset) is 270 days.
- A maximum of 30% of total portfolio amortized cost may be invested in fixed rate securities with remaining maturities exceeding 545 days.
- Callable securities are permitted.

#### Sector

- Treasury and Agency securities, Treasury and Agency Money Market Mutual Funds, and Treasury and Agency collateralized Repurchase Agreements in total must be at least 40% of total portfolio amortized cost.
- Repurchase Agreements shall not represent more than 25% of total portfolio amortized cost. The maximum percentage may be increased if, prior to execution, written approval is obtained from the Executive Director & CIO and written notification is provided to FHCF management.
- Corporate securities, Commercial Paper, Bankers Acceptances, Certificates of Deposit, Municipal securities, and Money Market Mutual Funds whose underlying assets are less than

100% Treasury and/or Agency securities, in total cannot comprise more than 60% of total portfolio amortized cost.

- No more than 25% of total portfolio amortized cost shall be invested in a single industry sector (using Bloomberg's DS199 Industry Sector classification), including the financial services industry sector which includes banks, broker-dealers, and finance companies. Any security issued by an International Financial Institution or a Sovereign entity will be included in the International Financial Institutions and Sovereigns sector and will be subject to the single issuer diversification limit. Treasuries, Agencies, Custodian Cash Sweep Vehicles and Repurchase Transactions are not considered to be part of an industry sector for these purposes. This constraint will go into full effect beginning October 1, 2014.
  - Municipal securities shall not represent more than 25% of total portfolio amortized cost.
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**Permitted Securities** (All securities not explicitly listed here are deemed prohibited unless written approval is received from the Executive Director & CIO prior to trade execution):

#### **Bank Instruments (includes Eurodollar and Yankee)**

- Bankers Acceptances
- Bank Accounts
- Certificates of Deposit
- Time Deposits
- Issue must have at least two minimum short-term ratings of A-1 by S&P and/or P-1 by Moody's and/or F1 by Fitch or at least two minimum long-term ratings of A by S&P and/or A2 by Moody's and/or A by Fitch.
  - If the issue is not rated, then the ratings of the issuer (determined by the guarantor) may be applied according to this standard. The ratings of the parent should not be relied upon to meet this requirement, unless the parent provides a written guarantee.
- Maximum final maturity shall not exceed 545 days.
- Domestic or foreign bank issuers must have minimum Total Shareholders' Equity (Common Equity + Minority Interest + Preferred Equity), also known as shareholder equity, total book value or net assets, exceeding \$100 million or the principal amount of the instrument must be insured by the Deposit Insurance Fund which is administered by the Federal Deposit Insurance Corporation. The Total Shareholders' Equity of the parent should not be used to satisfy this standard, unless the parent provides a written guarantee.

#### **Cash-USD**

#### **Commercial Paper**

- Issue or program must have at least two minimum short-term ratings of A-1 by S&P and/or P-1 by Moody's and/or F1 by Fitch.
- Maximum final maturity shall not exceed 270 days, excluding Asset Backed Commercial Paper (ABCP), which shall have a maximum term of 180 days.
- Any ABCP must have 100% liquidity support or enhancement in the form of a backstop from an A-rated entity, typically a bank or other financial institution. For ABCP, the supporting entity(s) will be considered the issuer for concentration limit considerations and must be on the Short-Term Approved List.

#### **Corporate Debt Securities**

- Bank Loans

- Bonds
- Debentures
- Notes
- Issue must have at least two minimum long-term ratings of A by S&P and/or A2 by Moody's and/or A by Fitch.
- Maximum final maturity shall not exceed 545 days.

#### **Custodian Cash Sweep Vehicles**

- Automatic Investments shall be limited to those funds authorized in the Custodian contract as SBA Custodian Cash Sweep Vehicles.

#### **Foreign Securities**

- Issue must have at least two minimum short-term ratings of A-1 by S&P and/or P-1 by Moody's and/or F1 by Fitch or at least two minimum long-term ratings of A by S&P and/or A2 by Moody's and/or A by Fitch.
- Maximum final maturity shall not exceed 545 days.

#### **Government Securities**

- U.S. Treasury Securities
- Agency Securities
  - Issued or guaranteed by a federal agency or other Government-Sponsored Enterprise acting under federal authority.
  - Securities issued by the following agencies are permitted:
    - Department of Housing and Urban Development
    - Export-Import Bank
    - Farm Credit System Financing Insurance Corporation
    - Federal Farm Credit Bank
    - Federal Agricultural Mortgage Corporation
    - Federal Financing Bank
    - Federal Home Loan Bank
    - Federal Home Loan Mortgage Corporation
    - Federal National Mortgage Association
    - General Services Administration
    - Government National Mortgage Association
    - Overseas Private Investment Corporation
    - Resolution Funding Corporation
    - Small Business Administration
    - Tennessee Valley Authority
    - U.S. Government Temporary Liquidity Guarantee Program (guaranteed by the FDIC)
    - Washington Metropolitan Area Transit Authority
- Maximum final maturity shall not exceed 1188 days.
- No more than 5% of total portfolio amortized cost may be invested in any one issuer of FDIC insured notes.

#### **International Financial Institutions and Sovereigns**

- International Financial Institutions:

- World Bank (IBRD)
- International Development Association (IDA)
- International Finance Corp (IFC)
- Multilateral Investment Guarantee Agency (MIGA)
- European Investment Bank (EIB)
- Asian Development Bank (ADB)
- European Bank for Reconstruction and Development (EBRD)
- Inter-American Development Bank Group (IDB or IADB)
- African Development Bank (AfDB)
- Islamic Development Bank (IsDB)
  - Bonds
  - Debentures
  - Notes
  - Medium-Term Notes
  - Commercial Paper
  - Discount Notes
- Issue must have at least two minimum long-term ratings of A by S&P and/or A2 by Moody's and/or A by Fitch or must have at least two minimum short-term ratings of A-1 by S&P and/or P-1 by Moody's and/or F1 by Fitch.
- Maximum final maturity shall not exceed 545 days.

#### **Medium-Term Notes**

- Maximum final maturity shall not exceed 545 days, excluding U.S. Treasuries and Agencies, which shall not exceed a maximum of 1188 days.
- Asset-Backed Medium-Term Notes must have 100% liquidity support or enhancement in the form of a backstop from an A-rated entity, typically a bank or other financial institution. The supporting entity will be considered the issuer for concentration limit considerations and must be on the Short-Term Approved List.

#### **Money Market Mutual Funds**

- Must have one minimum rating of AAAm by S&P or Aaamf by Moody's or AAAMmf by Fitch.
- No more than 10% of total portfolio amortized cost may be invested in an individual Money Market Mutual Fund (including any one Treasury or Agency Money Market Mutual Fund), excluding investments in Custodian Cash Sweep Vehicles.
- Money Market Mutual Funds must comply with Rule 2a-7 of the Investment Company Act of 1940.

#### **Municipal Securities**

- General Obligation Bonds
- Revenue Bonds
- Issue must have at least two minimum short-term ratings of A-1 by S&P and/or P-1 by Moody's and/or F1 by Fitch or at least two minimum long-term ratings of A by S&P and/or A2 by Moody's and/or A by Fitch.
- Maximum final maturity shall not exceed 545 days.
- Municipal securities shall not represent more than 25% of total portfolio amortized cost.

#### **Repurchase Agreements – Tri-Party**

- A specific written Repurchase Agreement must govern the transaction.

- Must be collateralized at least 102% with U.S. Government, Agency, or Agency Mortgage Backed Securities.
- All Repurchase Agreements must be marked-to-market daily.
- Term Repurchase Agreements
  - Maximum term for a Repurchase Agreement shall not exceed 30 calendar days.
  - Ratings and Counterparty Concentration Limits

Counterparty Concentration Limits	Ratings (one rating required)
\$300,000,000 total exposure over all accounts	A-1 by S&P F1 by Fitch
No Concentration Limits	A-1+ by S&P P-1 by Moody's F1+ by Fitch

- Overnight Repurchase Agreements
  - Maximum term for a Repurchase Agreement shall be 1 trading day.
  - No counterparty concentration limits
  - One minimum rating of A-1 by S&P or P-1 by Moody's or F1 by Fitch
- If counterparty is not rated, then utilize the parent company rating if the parent provides a written guarantee for the counterparty.
- Counterparties must have Total Shareholders' Equity (Common Equity + Minority Interest + Preferred Equity), also known as shareholder equity, total book value or net assets exceeding \$100 million. This requirement will be checked annually during the annual counterparty renewal process as detailed in SBA Policy # 15-012 Trading Counterparty Management–Public Market Asset Classes.
- Repurchase Agreements shall not represent more than 25% of total portfolio amortized cost. The maximum percentage may be increased if, prior to execution, written approval is obtained from the Executive Director & CIO and written notification is provided to FHCF management.
- Reverse Repurchase Agreements are not permitted.

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#### Prohibited Securities/Instruments:

Asset Backed Securities (with the exception of Asset Backed Commercial Paper and Asset Backed Medium-Term Notes as noted above)  
 Corporate and Municipal Variable or Floating Rate Obligations with demand features  
 Derivatives  
 Extendible ABCP and Commercial Paper issued by Collateralized Debt Obligations  
 Mortgage Backed Securities (with the exception of Agency Mortgage Backed Securities used as Repurchase Agreement collateral)  
 Non-U.S. Dollar Denominated Investments  
 Reverse Repurchase Agreements  
 Subordinated Obligations  
 Medium-Term Notes issued by Collateralized Debt Obligations  
 Cuba  
 Northern Ireland  
 PFIA Iran/Sudan

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### **Purpose of the Portfolio:**

The Florida Hurricane Catastrophe Fund (FHCF) was created in November 1993 during a special legislative session. The purpose of the FHCF is to provide a stable and ongoing source of reimbursement to insurers for a portion of their catastrophic hurricane losses in order to provide additional insurance capacity for the state. The SBA was given responsibility for establishing and operating the FHCF under Section 215.555, Florida Statutes. The statute created the State Board of Administration Finance Corporation ("the Corporation"), formerly known as the Florida Hurricane Catastrophe Fund Finance Corporation, as a public benefits corporation to provide a mechanism necessary for the cost-effective and efficient issuance of bonds. The Corporation can issue pre-event taxable bonds or, upon occurrence of a hurricane and a determination that the monies in the FHCF are or will be insufficient to pay insurers under the reimbursement contracts, the Corporation may issue tax-exempt revenue bonds or engage in other financing transactions.

Prudent investment of cash held in the FHCF and Corporation portfolios (collectively described herein as "the Portfolios," although all guidelines and other requirements apply individually to each) can serve to further the goal of maintaining residential property insurance capacity in the state. The IPG sets forth the objectives, guidelines and restrictions applicable to the investment of cash held in these funds.

### **Investment Objective and Performance:**

The primary investment objective for the Portfolios is defined by the following prioritized goals: (i) liquidity, so that reimbursement to insurers can be paid in a timely manner; (ii) safety of principal; and (iii) competitive returns. Performance evaluation will be conducted on the Portfolios and reported to FHCF management monthly, net of all fees. Both cost and total return performance will be calculated.

### **Portfolio Management and Implementation Narrative:**

Portfolio holdings will include only short-term, high quality and highly liquid fixed income securities as described above.

The Portfolios will be diversified in order to reduce risk from changes in market conditions for various classes of securities and to protect against changes in the financial health of any issuer of securities. Each security will also be monitored from a credit perspective to ensure that investments meet the requirements of the IPG.

Cash flow needs for the FHCF after a storm are difficult to project, but it is prudent to assume that significant amounts of cash would be needed to pay covered losses quickly. Since paying such losses fully and in a timely manner is the primary mission of the FHCF, liquidity and principal stability in the portfolios must be paramount. The duration of investments will be limited in order to provide ready liquidity at a price approximating amortized cost. The achievement of these goals is of prime importance and should not be jeopardized in the quest for additional return on the Portfolios.

To ensure its appropriateness relative to investment experience and market conditions, the IPG will be reviewed at least annually by the SBA and FHCF management and revised as necessary. It will also be necessary to monitor the impact of hurricane losses in the state to determine any potential liabilities of the FHCF which will affect the implementation of investment strategies.

## Monitoring:

The SBA will regularly monitor the Portfolios to assess their ability to meet levels of credit risk, redemptions, and interest rate changes, including the following:

- (1) On at least a weekly basis, the SIO-FI will review and document:
  - a. Interest rate sensitivity (i.e., days to reset).
  - b. Spread duration (i.e., weighted average life and related measures).
  - c. Natural maturity schedule.
  - d. Holdings that meet the purchase requirements of this IPG, but:
    - i. have elevated market risk and are not approved for future purchases;
    - ii. have elevated market risk.
  - e. Holdings that do not meet the purchase requirements of this IPG.
- (2) SBA Risk Management and Compliance will perform monthly compliance monitoring to ensure that investment practices comply with the requirements of this IPG and will communicate compliance exceptions to the Investment Oversight Group at regular monthly meetings and to FHCF management through delivery of monthly compliance packages. The Investment Oversight Group may agree to suspend the foregoing reporting to the extent that extraordinary market conditions, portfolio distributions, or other events are expected to cause the Portfolios to remain out of compliance for a period of time, and further reporting will not provide new information.
- (3) At any time, in the event that a security no longer meets the criteria for purchase due to default, event of insolvency, a credit rating downgrade or other material event ("Affected Security"), the SIO-FI must identify the Affected Security and cause the Portfolio Manager to either dispose of the security within 5 business days or present a justification for the retention of the security to the Investment Oversight Group within 3 business days. If an Affected Security matures within 5 business days, no further action is required. An Affected Security may be held after 5 business days only if the Executive Director & CIO has determined, based upon a recommendation from the SIO-FI and the Investment Oversight Group, that it would not be in the best interest of the FHCF and/or the Corporation to dispose of the security taking into account market conditions that may affect an orderly disposition. FHCF management and the Investment Oversight Group will be contemporaneously notified by the SIO-FI of any Affected Securities.
- (4) When the deviation between the market value and amortized cost of the FHCF or the Corporation exceeds:
  - a. 0.50%, according to pricing information provided by the Custodian, the SIO-FI will submit a formal action plan. The Investment Oversight Group will review the formal action plan and prepare a recommendation for consideration by the Executive Director & CIO.
  - b. 0.75%, according to pricing information provided by the Custodian, the Investment Oversight Group and the Executive Director & CIO will promptly consider what action, if any, will be initiated. Where the Executive Director & CIO believes the extent of any deviation from amortized cost price per share may result in material dilution or other unfair results to asset classes or portfolios, the Executive Director & CIO will cause such action to be taken as the Executive Director & CIO deems appropriate to eliminate or reduce to the extent reasonably practicable such dilution or unfair results.
  - c. FHCF management and the Investment Oversight Group will be contemporaneously notified by SBA Risk Management and Compliance should the deviation between the

market value and amortized cost of the FHCF and/or the Corporation exceed the preceding thresholds. This notification duty does not negate the need for portfolio management staff to daily monitor the deviation versus thresholds.

- (5) SBA will at least quarterly stress test the Portfolios and will report the results of the stress tests to FHCF management and to the Investment Oversight Group. Stress tests must be conducted for at least the following events, or combinations of events (i) a change in short-term interest rates; (ii) after a storm or 90 days prior to any maturity date of a pre-event bond (iii) downgrades or defaults; and (iv) changes between a benchmark overnight interest rate and the interest rates on securities in the Portfolios (i.e., shocks to spreads).
- (6) It is the responsibility of the SBA to (i) ascertain prior to the purchase of any investment for the Portfolios that such purchase is allowable and that the Portfolios will be in compliance with all aspects of this Statement subsequent to such purchase; and to (ii) reasonably maintain compliance with all aspects of this Statement. FHCF staff will not independently verify compliance and therefore it is imperative for a robust and independent compliance process to be applied to the Portfolios as described above. In addition, all SBA staff has an affirmative duty to immediately disclose any material impact on the Portfolios to SBA and FHCF management.
- (7) The SBA must provide reports on a monthly basis to enable the FHCF staff, advisory council, and governing board to understand how the Portfolios are invested and how they are performing versus the benchmark. As requested, the SBA will also provide industry sector breakdowns, the Short-term Approved List, and related credit analysis.

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Requested by (SIO):	Katy Wojciechowski/Jack Nicholson
Reviewed by Compliance:	Sheilah Smith