

ANNUAL INVESTMENT REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2021

GWEN MARSHALL
CLERK OF CIRCUIT COURT
AND COMPTROLLER

LEON COUNTY, FLORIDA

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 Fiscal Year Ended September 30, 2021
 Leon County, Florida

EXECUTIVE SUMMARY

The Investment Policy approved by the Commission provides for a conservatively managed portfolio that performed as expected during fiscal year 2021. The Investment Policy objectives are safety of principal, adequate liquidity and investment return, in that order of priority. Parameters related to portfolio duration, credit quality, liquidity and instrument selection have been established to ensure investment policy objectives are being met. **The portfolio earned \$1,660,880 in interest and had realized gains of \$165,207 for total income of \$1,826,087 for fiscal year ending September 30, 2021. This total income provided an effective rate of return of 0.99% on an average daily balance of \$185,269,250.** For comparison, the portfolio earned \$3,057,890 consisting of \$2,727,407 in interest and realized gains of \$330,483 for the prior fiscal year. This represents an effective rate of return of 2.03% on an average daily balance of \$150,540,641.

Investment income decreased 40% year over year with a \$34.7 million increase in overall average investment balances. This decrease in income is mostly due to interest rates decreasing due to COVID-19 and federal monetary policy. Our increased year-end cash on hand is due to circumstantial effects of COVID, CARES grants and reimbursement, and the prior year having a lower balance because of spending on hurricane Michael. Rates of return at September 30, 2021 were down sharply from prior years. The strategy of the county going forward is to keep our funds in investment pools whose longer duration helps mitigate the impact of decreasing short term interest rates. When market conditions change this strategy may be reassessed. The relatively high rate of return for Insight and SPIA among our portfolio options are expected to go down as overall market rates go up. The more favorable rates of these funds are somewhat attributable to the purchase of investments during more favorable interest rate environment. Funds with shorter duration and greater liquidity will be used to shore up the county's liquidity needs.

Section 218.415 (15), Florida Statutes, requires the Leon County Clerk of Circuit Court and Comptroller 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 is included in Table I and Table II below and the chart on page 6 as of September 30, 2021.

Table I Ending Balances Fiscal Year Ended September 30, 2021

Portfolio	Book Value	Market Value
<i>Insight Investment</i>	\$55,156,456	\$55,803,106
<i>FL Local Govt Inv Trust Fund</i>	2,506,651	2,506,651
<i>FL State Treasury SPIA</i>	77,049,177	76,956,807
<i>Florida Prime (SBA)</i>	9,293,172	9,293,172
<i>Wells Fargo Restricted MM</i>	9,540,026	9,540,026
<i>Wells Fargo Cash</i>	15,033,197	15,033,197
<i>Wells Fargo Sweep</i>	4,204,437	4,204,437
Total Cash and Investments	\$172,783,116	\$173,337,396

Table II Average Daily Balance and Income

Investment Type	FY 2020 Avg Daily Balance	FY 2021 Avg Daily Balance	Total Income FY 2021
<i>Insight Investment</i>	52,077,079	55,789,355	951,953
<i>FL Local Govt Inv Trust Funds</i>	17,762,385	12,422,302	8,168
<i>FL State Treasury SPIA</i>	31,250,500	68,725,460	789,028
<i>Florida Prime (SBA)</i>	18,295,252	18,182,772	25,691

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<i>Wells Fargo Restricted MM</i>	9,204,191	9,533,358	13,852
<i>Wells Fargo Cash</i>	8,368,079	14,760,388	36,759
<i>Wells Fargo Sweep</i>	12,983,155	5,855,616	636
Total Daily Average	150,540,641	185,269,250	
Total Income			1,826,087
Income / Avg. Daily Bal			0.99%

Investment Oversight Committee

The Investment Policy of the Board of County Commissioners provides for an Investment Oversight Committee (IOC) to work with the Clerk of the Circuit Court and Comptroller in the investment management of the portfolio. The Committee meets quarterly unless interim issues require more frequent meetings. Meetings are noticed, open to the public and the minutes of each meeting recorded. The IOC consists of the Clerk Designee, Director of Civil Courts, Kenneth Kent; the County Administrator Designee, Director of Financial Stewardship, Scott Ross; and three qualified individuals with financial or investment expertise who are independent of employment and business relationships with Leon County. The three outside members as of September 30, 2021 J. Ben Watkins III, State of Florida Director of the Division of Bond Finance, and Renee McNeill, The First Bank, and Dr. Apryl C. Lynn, MBA of Apryl C. Lynn & Associates.

During the fiscal year ending September 30, 2021, the portfolio was managed within the guidelines and limitations of the Investment Oversight Committee recommendations and the Commission approved policy without exception.

Investment Managers

The investment portfolio quarter ending balances ranged from \$173,337,396 to \$231,379,151 during the fiscal year, with higher balances during the winter as tax collection notices are distributed by the Leon County Tax Collector. The internal portfolio was generally allocated to the Florida Treasury Special Purpose Investment Account (SPIA) and Florida Prime (SBA) during the year for diversification and liquidity.

Insight Investment, the external manager invested an average of 35% of the Leon County portfolio during the fiscal year. As of September 30, 2021, Insight Investment managed approximately \$55 million in fixed income assets that resulted in a portfolio duration during the fiscal year ranging between 1.61 and 2.28 years. The established performance benchmark for Insight is the Bank of America/Merrill Lynch 1-3 Year Government Index. Insight Investment, formerly known as Cutwater Asset Management, has managed the County's external portfolio since June 1, 2010.

In October 2018, an additional money market account was opened with Wells Fargo for restricted funds for the Leon County Landfill. This Landfill money market account has a rate of Federal Funds less 10 basis points. In June 2019 the County added the Florida Local Government Investment Trust (FLGIT) Day to Day Fund to provide more flexibility for liquidity. Additional information for the FLGIT Day to Day Fund is provided on page 4 section B of this Annual Investment Report.

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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 July 9, 2019 adopted revisions to the new investment policy that was adopted on July 11, 2017. These revisions to the Policy, which were recommended by the Investment Oversight Committee, were designed to provide more flexibility for liquidity needs, while ensuring the safety of the principal and earning a reasonable rate of return by modifying the portfolio sector maximums for specific security types.

The Florida Constitution provides that the Clerk of Court and Comptroller (Clerk) 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 was conducted in accordance with written procedures and internal controls.

II. INVESTMENT OVERSIGHT COMMITTEE

The Clerk established the Investment Oversight Committee (IOC) to formulate investment strategies, to provide short-range direction, and to monitor the performance and structure of the County's portfolio. The IOC consists of the Clerk Designee, Director of Civil Courts, Kenneth Kent; the County Administrator Designee, Director of Financial Stewardship, Scott Ross and three qualified individuals with financial or investment expertise who are independent of employment and business relationships with Leon County. The three outside members as of September 30, 2021 are J. Ben Watkins III, State of Florida Director of the Division of Bond Finance, Renee McNeill, The First Bank and Dr. Apryl C. Lynn, MBA of Apryl C. Lynn & Associates.

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. During the current year, the IOC continued to maintain the average annual effective duration for the managed external portfolio of approximately 1.61 and 2.28 years. Given the current market environment, the IOC will continue to carefully monitor the portfolio duration and allocation of assets.

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.

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

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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 guided by the predefined and acceptable levels of risk as defined in this policy.

V. PORTFOLIO PERFORMANCE

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.

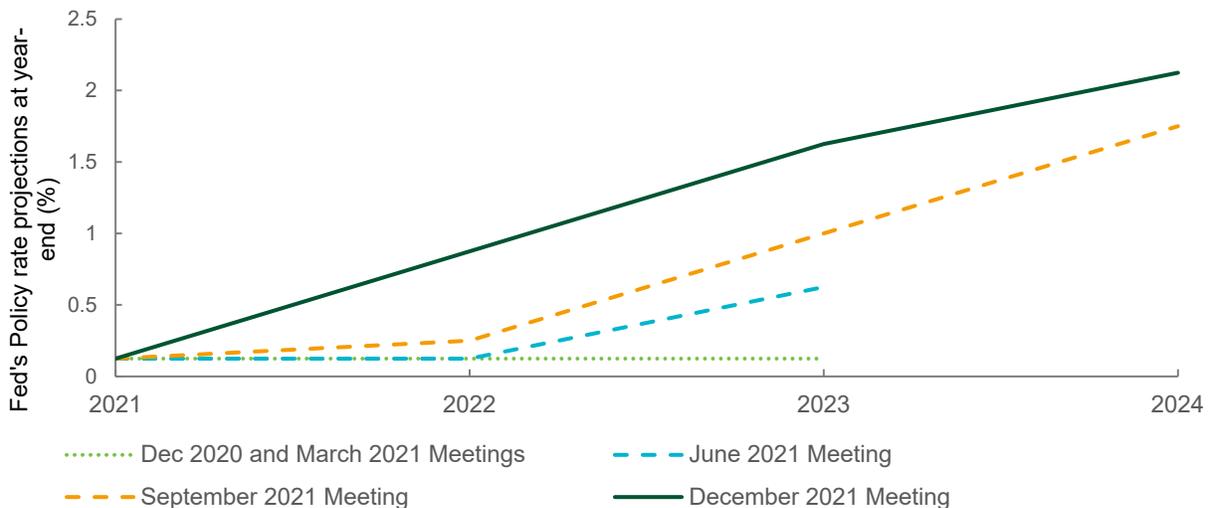
The portfolio earned \$1,660,880 in interest and had realized gains of \$165,207 for total income of \$1,826,087 for fiscal year ending September 30, 2021. This total income provided an effective rate of return of 0.99% on an average daily balance of \$185,269,250. For comparison, the portfolio earned \$3,057,890 consisting of \$2,727,407 in interest and realized gains of \$330,483 for the prior fiscal year. This represents an effective rate of return of 2.03% on an average daily balance of \$150,540,641.

The active managed external portfolio did have realized gains for the 12-months ending September 30, 2021 of \$165,207, and in 2020, after several years of realized losses. The yield on the external portfolio on September 30, 2021 was 1.12% versus 0.37% on September 30, 2020. For the portfolio overall, Rates have dropped significantly since 2020, which was already lower than prior years.

The following is an overall market and portfolio specific commentary provided by the County's investment advisor, Insight Investment.

Insight Investment Calendar Year Fourth Quarter 2021 Review & Outlook

The Federal Reserve (Fed) doubled its pace of 'tapering' to a rate of \$30bn per month. This puts the Fed on course to cease expanding its balance sheet in March 2022. It revised its dot plot to reflect a median expectation of four hikes in 2022. (see chart below)



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November’s CPI report came in at 6.8% for headline inflation (the highest since 1982, but modestly lower than market fears of 7%+) with core inflation reaching 4.9% (the highest since 1991). Energy prices were a key factor, rising 33% pa. Regarding ‘sticky’ inflation categories, rents ran at ~0.4% in November, pushing owners’ equivalent rent to 3.5% pa and medical prices showed a small but notable 2.1% pa rise.

The US economy added 210,000 jobs in November, less than the 550,000 expected. However, the unemployment rate fell unexpectedly to 4.2% from 4.6%. The participation rate increased to 61.8% from 61.6%. Wage data was close to expectations with average hourly earnings up 4.8% pa. Leisure and hospitality wages continue to advance faster than other sectors – up 12.35% pa.

The JOLTS report was further indicative of a tight labor market. Job openings rose 4.1% to 11m, close to July’s record high. The number of layoffs declined 2.5% to 1.361m, close to a record low.

On the political front, President Joe Biden failed to secure Democratic Senator Joe Manchin’s approval for the ‘American Families Plan’, the last component of the \$1.75trn ‘Build Back Better’ fiscal program, forcing Congress to return to the drawing board.

In response to the global spread of the more transmissible but potentially less severe Omicron Covid-19 variant, a number of countries enacted precautionary restrictions around the holiday period, although such measures were relatively modest in the US. Risk assets enjoyed a strong end to the year.

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’s Investment Policy Section XV, 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 Policy permits maturities of the operating portfolio establishing a range of 60 days to 10 years. Table 1 gives a brief description of each investment type according to Section XVI of the Policy. It is generally regarded that the following investment types are safe investments and meet the Policy’s first objective: safety.

Table 1 – Permitted Investments

<i>Investment Type</i>	<i>Composition Limit</i>	<i>Max Maturity/ WAL Limit</i>
<i>Repurchase Agreements</i>	15%, 5% any one issuer	60 Days
<i>Bankers' Acceptances</i>	15%, 5% any one issuer	270 Days
<i>Commercial Paper</i>	20%, 5% any one issuer	270 Days
<i>Financial Deposit Instruments</i>	30%	2-Year, 1-Year Avg
<i>Federal Instrumentalities</i>	45%, 15% any one issuer	5-Year
<i>Corporate Debt</i>	25%, 3% any one issuer	5-Year
<i>Municipal Bonds</i>	35%, 3% any one issuer	5-Year
<i>Mortgage Backed Securities (MBS), including CMOs</i>	35%, 15% any one issuer, 3% per CUSIP	5-Year WAL
<i>Asset Backed Securities</i>	10%, 3% any one issuer	5-Year WAL
<i>Commercial Mortgage Backed Securities (CMBS)</i>	8%, 3% any one issuer	5-Year WAL
<i>US Government Securities</i>	100%	10-Year
<i>US Federal Agencies (full faith and credit)</i>	100%, 20% any one issuer	5-Year
<i>Florida Prime (SBA), FLGIT</i>	20% each pool	NA
<i>FL Municipal Investment Trust (FMIvT)</i>	15%	NA
<i>SPIA, Money Markets</i>	100%	NA

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The internal portfolio was invested in the following government pools during fiscal year ending September 30, 2021:

A. Florida Local Government Surplus Funds Trust Fund, also known as Florida PRIME

Florida PRIME is administered by the Florida State Board of Administration (SBA) for the purpose of pooling investment funds of local governments in an investment portfolio of money market instruments that provide liquidity while preserving capital. On February 13, 2008, the Trustees of the SBA hired Federated Investors to manage Florida PRIME, effective on March 1, 2008. As of October 1, 1997, the SBA had converted Florida PRIME to a “2a-7 like” investment pool (SEC Rule 2a-7 of the Investment Company Act of 1940). On September 30, 2021, Florida PRIME was invested in fixed rate and floating rate bank instruments, repurchase agreements, fixed rate and floating rate corporate commercial paper, floating rate corporate notes, money market mutual funds, and fixed rate and floating rate asset backed commercial paper. The rating for Florida Prime as of September 30, 2021 was AAAm by Standard and Poor’s. A maximum of 20% of the portfolio may be invested with Florida PRIME.

B. The Florida Local Government Investment Trust Government Fund (FLGIT)

The Florida Local Government Investment Trust (FLGIT) is a local government investment pool developed through the joint efforts of the Florida Court Clerks and Comptrollers (FCCC) and the Florida Association of Counties (FAC) for providing opportunities for the investment of excess public funds. FLGIT offers two investment funds to its participants, the Short Term Bond Fund and the Day to Day Fund. The Short Term Bond Fund is a longer term higher yielding fund. At September 30, 2021, the County did not have any balances in the Short Term Bond Fund. The Day to Day Fund is a highly liquid fund with underlying investments having a weighted average maturity of less than 90 days. The FLGIT Day to Day Fund does meet the criteria and has adopted operating procedures consistent with the requirements for a SEC Rule 2a-7 fund. On September 30, 2021, the majority of the Day to Day Fund was invested in US Treasuries, Agencies and Repurchase Agreements with the remainder in short term Corporate Bonds, Commercial Paper and Certificates of Deposit. The Day to Day Fund maintained a credit rating of AAAm by Fitch as of September 30, 2021. A maximum of 20% of the portfolio may be invested with FLGIT.

C. 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 rating for the Treasury Investment Pool as of September 30, 2021 was AA-f by Standard and Poor’s with a duration of 2.62 years. The County Investment Policy allows up to 100% of the County portfolio to be invested in SPIA.

In March 2015, the Florida Treasury implemented procedures to provide better cash forecasting and an increase in funds available for longer term investments which should increase the interest earnings of the pool as a whole. These enhancements included (1) closing the pool to new non-component unit entities, (2) requiring new withdrawal notices and minimum balance requirements and (3) setting a cap on investment amounts. Instead of 100% liquidity with 3 days’ notice, the Florida Treasury now requires 5 days’ notice for liquidations between \$20 and \$75 million and 20 days’ notice for liquidations over \$75 million. In addition, 6 months’ notice is required for liquidations

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planned below a floor calculated as 60% of the previous 3 months average balance. The changes by the Florida Treasury reduce the possibility of large unplanned liquidations from the pool. The IOC evaluated these changes and determined that the associated risks would be monitored and dollars reallocated between asset classes (including SPIA) based on periodic analysis of the market risk.

The financial details and disclosures for the Treasury Investment Pool are made in Note 4 to the State of Florida Annual Comprehensive Financial Report (ACFR).

At September 30, 2021, the majority of the Florida Treasury Investment Pool holdings were in US Treasuries, US Government Agencies/Bonds, Corporate Bonds, and Agency Mortgage Backed Securities. The Pool's fair value factor was 0.9988 for September 2021. A factor of less than 1.0000 indicates that the market value of the Pool's investments is less than the funds invested in the Pool. For more information relating to the Treasury Investment Pool, please visit the website at <http://www.myfloridacfo.com/Division/Treasury/>.

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. A liquidity base of approximately at least two months of anticipated disbursements is kept in relatively short term investments.

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. Periodic 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 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 monitored daily. Current conditions and evaluations of national economic activity are considered in making asset allocation decisions.

A. Portfolio Balances

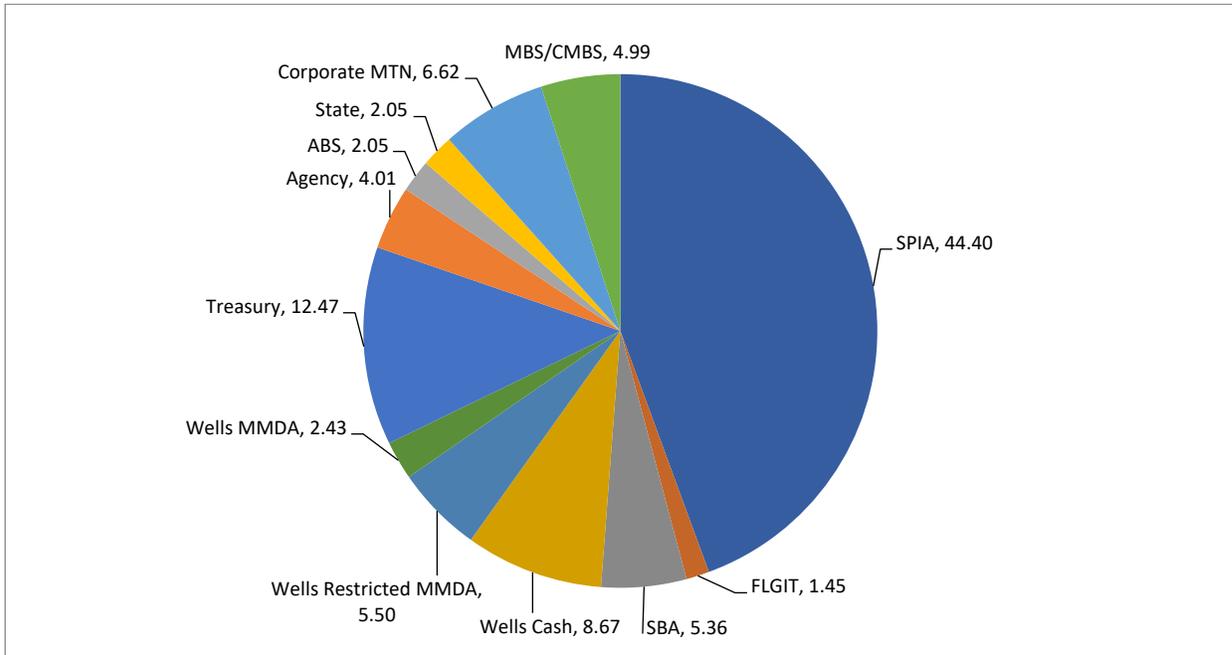
The portfolio's ending balance for fiscal year 2021 was \$173,337,396 while the ending balance for 2020 was \$143,481,089, an increase of \$29,856,307. This increase in the investment balance is largely due to the county being provided Federal funds related to Coronavirus Aid, Relief and Economic Security that were not yet spent at year end.

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B. Portfolio Composition

The Clerk or the Clerk’s designee (Finance Director) shall have the option to further restrict or increase investment percentages from time to time based on market conditions. 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 quarterly Investment Oversight Committee meeting. The portfolio was managed in compliance with diversification requirements for investment types as shown in the following

Table 2 Portfolio Composition:



C. 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 3 are the average terms of each investment type held as of fiscal year end 2020 and 2021. Average term is the weighted average number of days remaining 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 externally managed portfolio was invested for a weighted average term of approximately 650 days in fiscal year 2021, as compared with a weighted average term of 704 days in fiscal year 2020.

Table 3- External Manager Average Term by Investment Type (Days)

	FY 2021	FY 2020
US Treasury Notes	431	913
US Agency Notes	756	730
Commercial Mortgage Backed Securities	573	894
Asset Backed Securities	467	387
Mortgage Backed Securities	657	631
Municipal Notes	675	993

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<i>Corporate Notes</i>	431	485
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D. Earnings and Yields

The portfolio earned \$1,660,880 in interest and had realized gains of \$165,207 for total income of \$1,826,087 for fiscal year ending September 30, 2021. This total income provided an effective rate of return of 0.99% on an average daily balance of \$185,269,250. For comparison, the portfolio earned \$3,057,890 consisting of \$2,727,407 in interest and realized gains of \$330,483 for the prior fiscal year. This represents an effective rate of return of 2.03% on an average daily balance of \$150,540,641. The range of duration of the County’s overall portfolio is defined as 0.5 years to 2.5 years. Unusual market or economic conditions may mandate moving the portfolio outside of this range. The Investment Oversight Committee will be convened and will approve any portfolio duration outside of the range specified above. The duration of the portfolio was an annual average of 1.97 years.

Table 4- Quarter Wt. Average Yields

	09.30.20	12.31.20	03.31.21	06.30.21	09.30.21
Insight Investment	1.77%	1.65%	1.52%	1.28%	1.12%
FL Local Govt Investment Trust	0.18%	0.10%	0.04%	0.04%	0.02%
FL State Treasury SPIA	2.12%	1.64%	0.78%	0.96%	1.05%
Florida Prime (SBA)	0.32%	0.18%	0.13%	0.10%	0.09%
Wells Fargo Restricted MM	0.15%	0.15%	0.15%	0.15%	0.15%
Wells Fargo Cash	0.25%	0.25%	0.25%	0.25%	0.25%
Wells Fargo Sweep	0.01%	0.01%	0.01%	0.01%	0.01%
Quarter Wt. Average Yields	1.02%	0.69%	0.73%	0.80%	0.86%

The dollar amount of interest earnings is used in historical and budgetary comparisons and in cash flow analysis. Actual interest earnings totaled \$1,660,880 in fiscal year 2021 and \$2,727,407 in fiscal year 2020. Actual interest earnings were \$75,061 less than the budget in fiscal year 2021 and \$22,346 more than the budget in fiscal year 2020.

Table 5- Budget and Actual Income

	FY 2021	FY 2020
<i>Actual</i>	\$1,660,880	\$2,727,407
<i>Budget</i>	\$1,735,929	\$2,705,061
<i>Variance</i>	\$(75,061)	\$22,346

IX. CONCLUSION

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

- Investment income decreased 40% year over year with a \$34.7 million increase in overall average investment balances. This decrease in income is mostly due to a decrease in market interest rates due to the impact of COVID-19 and federal monetary policy. The increase in year-end cash is due to circumstantial effects of COVID, CARES grants and reimbursement, with the prior year also having a higher-than-normal balance for the same reason. Rates of return at September 30, 2021 were down from the prior year, which were much lower than normal. The County has adjusted its strategy of keeping our funds in investment pools with longer durations, and have started to move to shorter durations, with the hope of taking

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advantage of rising rates soon. When market conditions change this may be reassessed. Funds with greater liquidity, such as money market funds, will be used to shore up the county's liquidity needs.

- The Investment Portfolio activity was in compliance with the Investment Policy.
- The economic environment continues to be volatile. The external manager continues to tactically manage the duration as changes in the market occur.

Investment Oversight Committee

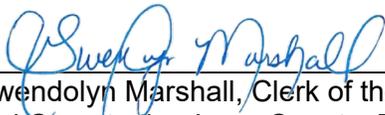
The IOC met regularly to monitor market conditions, investment performance, ensure compliance with the investment policy and oversee the performance of the external manager. The investment policy requires staff to notify the IOC of any deviations from the investment policy including any time that any holdings drop below the minimum credit ratings required under the policy. The IOC will then consider the current market environment and make recommendations or any corrective action needed.

On March 8, 2022, the IOC met to review and approve this annual report summarizing the performance of the internal portfolio and the external manager.

Presented by:



Ben Watkins, Chairman
Investment Oversight Committee



Gwendolyn Marshall, Clerk of the Court
and Comptroller, Leon County, Florida