Office of the State Treasurer

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INVESTMENT POLICY
FOR THE
OFFICE OF THE STATE TREASURER

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POLICY

O.C.G.A. §§ 50-5A-7 stipulates "Pursuant to an investment policy adopted by the State Depository Board, the Office of the State Treasurer shall invest funds through the state treasurer. The state treasurer shall invest all funds with the degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering first the probable safety of their capital and then the probable income to be derived."

It is the policy of the State Depository Board that the State Treasurer ("OST") invest all funds prudently, considering first the probable safety of capital and then probable income, while meeting daily cash flow requirements and conforming to all statutes governing the investment of public funds. This policy and the following guidelines shall pertain to the investment of state funds, public funds comprising the Local Government Investment Pool, and other funds in the possession of OST.

OBJECTIVES

The objectives in managing all investment activities shall be:

1. Safety of capital. Investments shall be managed in a manner that seeks to ensure preservation of principal in each portfolio of investments.

2. Liquidity. Each portfolio shall remain sufficiently liquid to enable the funding of all cash needs reasonably anticipated given the profile of each respective portfolio.

3. Investment income. Each portfolio shall be managed with the objective of obtaining a market rate of return taking into consideration cash flow requirements for each respective portfolio.

4. Diversification. To reduce overall portfolio risks while maintaining market rates of return, investments in each portfolio shall be diversified to eliminate risk of loss from an over concentration in a specific maturity, issuer (including repurchase agreement dealers), and security or class of securities.

The Treasurer shall establish Investment Guidelines for each investment portfolio to assure that prudent diversification and adequate liquidity is maintained.

TERM OF INVESTMENTS

To the extent necessary, the Treasurer should attempt to match investments with expected cash requirements. However, certificates of deposit may not have a term exceeding five years. The Treasurer may establish duration or maturity limitations for other investments.

AUTHORIZED INVESTMENTS

The Treasurer is authorized to invest in such securities permitted in the Code references below:

State General Funds/Local Government Investment Pool/State Agency & Local Government Separate Accounts- Investments authorized in O.C.G.A. §§50-5A-7, §§50-17-2, §§50-17-63 and §§36-83-2

State Risk Management Fund/State Health Insurance Fund - Investments authorized in O.C.G.A. §§50-5A-7, §§50-17-2 and §§50-17-63

Georgia State Financing and Investment Commission/Georgia Environmental Finance Authority authorized in O.C.G.A. §§50-5A-7, §§50-17-27, §§50-17-2 and §§50-17-63

CREDIT QUALITY

The Treasurer will place emphasis on securities of high credit quality and general marketability. The following credit constraints and limitations shall apply to all investment portfolios managed by OST:

a) Repurchase agreements. Repurchase agreements and reverse repurchase agreements may be transacted with authorized dealers and banks that are rated investment grade by one or more nationally recognized rating agency, are determined by the Treasurer to have adequate capital, with maximum exposure per institution determined by the Treasurer and adjusted as needed due to the financial condition of such institutions, the size of the OST investment portfolios, and in accordance with the OST counterparty risk assessment model. Repurchase agreements must be collateralized by obligations of the United States and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States government or other securities authorized for investment by the Treasurer in subsection (b) of Code Section 50-17-63. Collateral comprised of obligations of the United States and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States government must have a market value of at least 102% of the investment and other eligible collateral must have a market value of 105% of the investment. Collateral must be held by a third party custodian approved by the Treasurer and marked to market daily. Exceptions to the requirements for third party custody of collateral may be approved by the Treasurer for dealer banks if necessary on occasion. All exceptions shall be reported by the Treasurer to the State Depository Board. All reverse repurchase agreements shall be approved in advance by the Treasurer.

b) Certificates of Deposit ("CD's"). The maximum term of CD's shall not exceed five years. OST shall not place funds in CD's at any depository if such placement of funds will result in total state deposits at such depository in excess of 100% of total equity capital. Provided, however, that the Treasurer may authorize placement of funds in CD's at a depository if such placement of funds will result in total state deposits not to exceed 125% of total equity capital on an as needed basis to allow for fluctuations in demand deposit balances. All CD's must be secured by collateral permitted by statute. Surety bonds acceptable as security for CD's shall require approval by the State Depository Board with such credit constraints or limitations it determines. Pledged securities shall be held by a third party custodian approved by OST. Pledged securities shall be marked-to-market at least monthly with depositories required to initially pledge to OST, and thereafter maintain upon notification of any shortfall, collateral having a market value equal to 110% of CD's.

c) Commercial paper ("CP"). CP issued by domestic corporations carrying ratings no lower than P-1 by Moody's Investors Service and A-1 by Standard & Poor's Corporation, in an amount, including the balance of any negotiated investment deposit agreements described in (d)(4) below, that does not exceed 5% of portfolio assets for any single issuer.

d) Negotiated investment deposit agreements. Deposit agreements with banks that are (1) secured by collateral permitted by statute, held by a third-party custodian, market-to-market daily, and having a market value equal to or exceeding 110% of the deposit; (2) fully secured by a letter-of-credit issued by the Federal Home Loan Bank; (3) fully secured by a surety bond issued by a financial institution approved by the State Depository Board; or, (4) subject to funds being available upon demand, with U.S. banks carrying ratings no lower than P-2 by Moody's Investors Service or A-2 by Standard & Poor's Corporation, are determined by the Treasurer to have adequate capital, with maximum exposure per institution determined by the Treasurer and adjusted as needed due to the financial condition of such institutions, the size of the OST investment portfolios, and in accordance with the OST counterparty risk assessment model in an amount, including any CP issued by the respective financial institution held for investment by OST, that does not exceed 5% of portfolio assets for any single institution.

e) Prime bankers acceptances. Bankers acceptances must carry the highest rating assigned to such investments by a nationally recognized rating agency.

f) Obligations issued by this state or its agencies or other political subdivisions of this state. Such investments, if meeting statutory investment requirements, may be approved for investment by the Treasurer with the requirement that they are of high credit quality and are reported to the State Depository Board.

g) Obligations of corporations. Obligations of domestic corporations must be rated investment grade or higher by a nationally recognized rating agency.

h) Obligations issued by the government of any foreign country. Direct obligations of the government of any foreign country must be rated A or higher by a nationally recognized rating agency.

i) International Bank for Reconstruction and Development or the International Financial Corporation. Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development or the International Financial Corporation must be rated A or higher by nationally recognized rating agency.

j) Georgia Fund 1 (GF1), Georgia Extended Asset Pool (GEAP), and any other funds comprising the local government investment pool in amounts necessary for prudent diversification, liquidity, and investment income.

k) Such other limitations as determined by the Treasurer to be necessary for the preservation of principal, liquidity, or marketability of any of the portfolios, including allowing investment in any single issuer of CP as described in (c) above or deposits in negotiated investment deposit agreements as described in (d) above to temporarily exceed 5% for a period not to exceed 10 business days to allow for efficient investment of accounts experiencing significant fluctuation of balances.

COMPETITIVE BIDDING REQUIRED

All investment transactions by OST (including, but not limited to, repurchase agreements, CD's, purchases and sales of U.S. government and agency obligations, and purchases and sales of obligations of corporations) shall be transacted by competitive bidding with procedures for each class of investment determined by the Treasurer. Exceptions may be made by the Treasurer but such shall be reported to the State Depository Board including the circumstances requiring such action. The Treasurer shall establish transaction procedures for investment advisors/managers on a case by case basis.

AUTHORIZED INSTITUTIONS

The Treasurer shall maintain a listing of financial institutions authorized to transact business with OST. Each depository shall be approved by the State Depository Board. The Treasurer may approve brokers and dealers

of government securities and repurchase agreements to transact trades with OST with limits established based on firm's capitalization, execution capabilities, and other criteria. Brokers and dealers having offices in this state shall receive priority in the approval process to the extent that such limitations does not result in reduced investment performance or insufficient portfolio diversification.**INVESTMENT ADVISORS**

The board acknowledges the authority of the Treasurer to contract with investment advisors and investment managers as the Treasurer deems appropriate. Any such services shall be subject to competitive bidding procedures established by the Treasurer; provided, however, that such procedures must consider the cost of the service provided and the quality of the service provided. In the case of an emergency, the Treasurer may make an exception to the competitive bidding procedures, but any such exceptions must be reported to the State Depository Board.

SECURITIES LENDING

The Treasurer may lend any securities in portfolios managed by OST considering first probable safety of capital and then probable income to be derived. The Treasurer may utilize its custodian bank to conduct securities lending activities.

PERFORMANCE MEASUREMENT

The Treasurer shall be responsible for reporting to the State Depository Board each investment portfolio balance, maturity or duration distribution, market diversification, and investment performance. The Treasurer shall establish benchmarks as appropriate for each investment portfolio.

CONFLICTS OF INTEREST

The Treasurer shall establish procedures to assure that all OST employees with investment responsibilities refrain from personal business or investment activity that would impair their ability to manage the investment portfolios in an impartial and effective manner.

LOCAL GOVERNMENT INVESTMENT POOL

Commingled funds comprising Georgia Fund 1 shall be managed to maintain a stable net asset value.

Funds comprising the Georgia Extended Asset Pool shall be managed as a variable net asset value fund.

INVESTMENT MANAGEMENT & ADMINISTRATION

The Treasurer shall implement procedures to assure that OST safely and effectively manages the receipt, investment, accounting, and disbursement of state and local funds without interruption. OST is funded by fees it collects for managing and investing local and state agency funds. Title 36 Chapter 83-8(1) requires that OST maintain unexpended administrative fees collected from participants in trust to fund the continued operation of OST as administrator of Georgia Fund 1 and GEAP.

OST shall continuously assess opportunities to increase interest earnings taking into consideration specific state agency cash flow needs and structuring investment portfolios with weighted average maturities that optimize investment earnings. In carrying out its investment responsibilities, OST will collect administrative fees from each participant account that is segregated for accounting or investment purposes. Unless otherwise compensated by contract or prohibited by statute or regulatory constraints, OST will assess an annual administrative fee on participant accounts.

CODE REFERENCES

50-17-63. Deposit of demand funds; investment of funds; reports; remittance of interest earned; motor fuel tax revenues.

(a) All demand funds held by any department, board, bureau, or other agency of the state shall be deposited in state depositories, except the monthly deposits of funds for current operating expenses may be deposited in a foreign bank by any department, board, bureau, or other agency of the state which has a

foreign office, provided that the department, board, bureau, or other agency of the state limits its operating deposits in foreign banks to conform to guidelines and dollar limitations prescribed by the State Depository Board; and such funds that are in excess of requirements for current operating expenses shall be placed under time deposit agreements by the state treasurer conforming to interest contracts then having approval of the board made pursuant to Code Section 50-17-52; and any funds not deposited or placed under time deposit agreements shall be subject to immediate withdrawal on order of the state treasurer when directed by the board. The board may permit any department, board, bureau, or other agency to invest funds collected directly by that department, board, bureau, or agency in short-term time deposit agreements, provided the interest income of those funds is remitted to the state treasurer as revenues of the state.

(b) All departments, boards, bureaus, and other agencies of the state shall report to the board, on such forms and at such times as the board may prescribe, such information as the board may reasonably require concerning deposits and withdrawals pursuant to this Code section and shall enable the board to determine compliance with this Code section. Interest earned on state funds withdrawn from the state treasury on approved budgets shall be remitted to the Office of the State Treasurer by each department, board, bureau, or agency and placed in the general fund. The board may permit the state treasurer to invest in any one or more of the following: bankers' acceptances; commercial paper; bonds, bills, certificates of indebtedness, notes, or other obligations of the United States and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States government including, but not limited to, obligations or securities issued or guaranteed by Banks for Cooperatives regulated by the Farm Credit Administration, the Commodity Credit Corporation, Farm Credit Banks regulated by the Farm Credit Administration, Federal Assets Financing Trusts, the Federal Financing Bank, Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Financial Assistance Corporation chartered by the Farm Credit Administration, the Government National Mortgage Association, the Import-Export Bank, Production Credit Associations regulated by the Farm Credit Administration, the Resolution Trust Corporation, and the Tennessee Valley Authority; obligations of corporations organized under the laws of this state or any other state but only if the corporation has a market capitalization equivalent to $100 million; provided, however, that such obligation shall be listed as investment grade by a nationally recognized rating agency; bonds, notes, warrants, and other securities not in default which are the direct obligations of the government of any foreign country which the International Monetary Fund lists as an industrialized country and for which the full faith and credit of such government has been pledged for the payment of principal and interest, provided that such securities are listed as investment grade by a nationally recognized rating agency; or obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development or the International Financial Corporation, provided that such securities are listed as investment grade by a nationally recognized rating agency; provided, however, that interest earned on the investment of motor fuel tax revenues shall be defined as motor fuel tax revenues and shall be appropriated in conformity with and pursuant to Article III, Section IX, Paragraph VI(b) of the Constitution of Georgia. The board may also permit the state treasurer to lend any of the securities of the type identified in this subsection subject to the limitations of subsection (b) of Code Section 50-5A-7 and Chapter 17 of this title.

50-17-2. Agreements to resell or repurchase United States government obligations at stated rate of interest; delivery and safekeeping of such obligations; investment in authorized securities.

(a) Agencies, authorities, boards, public corporations, instrumentalities, retirement systems, and other divisions of state government authorized to invest in direct obligations of the United States government or in obligations unconditionally guaranteed by agencies of the United States government may do so by selling and purchasing such obligations under agreements to resell or repurchase the obligations at a date certain in the future at a specific price which reflects a premium over the purchase or selling price equivalent to a stated rate of interest. Delivery of the obligations purchased may be made by deposit through book entry in a safekeeping account maintained by the seller of the securities, in the name of the purchasing state entity or its agent, clearly indicating the interest of the purchasing state entity.

(b) In addition to the authorization in subsection (a) of this Code section, the state treasurer may invest in the securities authorized for direct investment by subsection (b) of Code Section 50-17-63 by selling and purchasing such obligations under agreements to resell or repurchase the obligations at a date certain in the future at a specific price which reflects a premium over the purchase or selling price equivalent to a stated rate of interest. Delivery of the obligations purchased may be made by deposit through book entry in a

safekeeping account maintained by the seller of the securities, in the name of the Office of the State Treasurer or its agent, clearly indicating the interest of the Office of the State Treasurer.

50-17-27. Application and investment of public debt proceeds by commission and by the Environmental Finance Authority.

(a) The commission shall be responsible for the proper application of the proceeds of public debt issued under this article to the purposes for which it is incurred; provided, however, that the proceeds from guaranteed revenue obligations shall be paid to the issuer thereof, and the proceeds and the application thereof shall be the responsibility of the issuer.

(b) Proceeds received from the sale of bonds evidencing general obligation debt shall be held in trust by the commission and disbursed promptly by the commission in accordance with the original purpose set forth in the authorization of the General Assembly and in accordance with rules and regulations established by the commission. Bond proceeds and other proceeds held by the commission shall be as fully invested as is practical, consistent with the proper application of such proceeds for the purposes intended. Investments shall be limited to general obligations of the United States or of subsidiary corporations of the United States government fully guaranteed by such government, or to obligations issued by the Federal Land Bank, Federal Home Loan Bank, Federal Intermediate Credit Bank, Bank for Cooperatives, Federal Farm Credit Banks regulated by the Farm Credit Administration, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, or to tax exempt obligations issued by any state, county, municipal corporation, district, or political subdivision, or civil division or public instrumentality of any such government or unit of such government, or to prime bankers' acceptances, or to the units of any unit investment trusts the assets of which are exclusively invested in obligations of the type described in this subsection, or to the shares of any mutual fund the investments of which are limited to securities of the type described in this subsection and distributions from which are treated for federal income tax purposes in the same manner as the interest on said obligations, provided that at the time of investment such obligations or the obligations held by any such unit investment trust or the obligations held or to be acquired by any such mutual fund are limited to obligations which are rated within one of the top two rating categories of any nationally recognized rating service or any rating service recognized by the commissioner of banking and finance, and no others, or to securities lending transactions involving securities of the type described in this subsection. Income earned on any such investments or otherwise earned by the commission shall be retained by the commission and used to purchase and retire any public debt or any bonds or obligations issued by any public agency, public corporation, or authority which are secured by a contract to which the second paragraph of Article IX, Section VI, Paragraph I(a) of the Constitution of Georgia of 1976 is applicable and may be used to pay operating expenses of the commission. However, in order to provide for contingencies, efficiency, and flexibility, the commission may agree by contract or grant agreement with county and independent school systems that income earned during grant administration on a direct appropriation of state funds to the commission for public school capital outlay will be applied to the capital outlay purposes of the appropriation. Otherwise, the interest on direct appropriations to the commission shall be deposited into the treasury.

(c) Notwithstanding subsections (a) and (b) of this Code section, the Georgia Environmental Finance Authority shall be the state authority responsible for the proper application of the proceeds of public debt issued under this article for the purpose of making loans to counties, municipal corporations, political subdivisions, local authorities, and other local governmental entities for water or sewerage facilities or systems. Proceeds from the sale of such bonds shall be paid to the authority, which shall hold them in trust for their original purposes as set forth in the authorization of the General Assembly, as provided by law and in accordance with the rules and regulations established by the authority. Bond proceeds held by the authority shall be as fully invested as is practicable, consistent with the proper application of such proceeds for the purposes intended, and the authority shall contract with the Georgia State Financing and Investment Commission for the purpose of investing any such bond proceeds and the income therefrom. Investments shall be limited to those permitted to the authority or the Georgia State Financing and Investment Commission in the laws providing for their creation and activities. Income earned on any such investments of bond proceeds or the income therefrom shall be retained by the authority and used by it for its public purposes as provided by law.

50-5A-7. Duties of Office of the State Treasurer generally; investments through treasurer.

(a) It shall be the power and duty of the Office of the State Treasurer:

(1) To receive and keep safely all moneys which shall from time to time be paid to the treasury of this state, and to pay all warrants legally drawn on the treasury by the Governor and countersigned by the comptroller general or, in the comptroller general's absence, by the deputy comptroller general, and to pay all drafts of the President of the Senate and the Speaker of the House of Representatives for sums lawfully due the members and officers of their respective bodies;

(2) To keep good and sufficient accounting records of every sum of money received into, or disbursed from, the state treasury, utilizing an accounting system in conformity with generally accepted accounting principles and approved by the state accounting officer;

(3) To keep a true and faithful record of all warrants drawn by the Governor on the treasury and all drafts drawn on the treasury by the President of the Senate and the Speaker of the House of Representatives;

(4) To keep a true and faithful record of the accounts with all designated state depositories in which the state's money is deposited, showing the principal amount and the interest earned in each depository;

(5) To keep safely certificates of stock, securities, state bonds, and other evidences of debt and to manage and control the same for the purposes to which they are pledged;

(6) To invest all state and custodial funds, subject to the limitations of subsection (b) of this Code section and Chapter 17 of this title;

(7) To invest all health insurance funds, subject to the limitations of subsection (b) of this Code section and Chapter 17 of this title;

(8) To invest all self-insurance, liability, indemnification, tort claims, workers' compensation, or related funds, subject to the limitations of subsection (b) of this Code section and Chapter 17 of this title;

(9) To invest all other funds in its possession, subject to the limitations of subsection (b) of this Code section and Chapter 17 of this title; and

(10) To lend securities in its possession, subject to the limitations of subsection (b) of this Code section and Chapter 17 of this title.

(b) Pursuant to an investment policy adopted by the State Depository Board, the Office of the State Treasurer shall invest funds through the state treasurer. The state treasurer shall invest all funds with the degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering first the probable safety of their capital and then the probable income to be derived.

36-83-2. Legislative findings; purpose of chapter

(a) The General Assembly finds that the public interest is served by maximum and prudent investment idle public funds so that the need for taxes and other public revenues is decreased commensurately with the earnings on such investments.

(b) The purpose of this chapter is to secure the maximum public benefit from the deposit and investment of public funds and, in furtherance of such purpose, to:

(1) Authorize the State Depository Board to establish and maintain a continuing state-wide policy for the deposit and investment of public funds under its control;

(2) Establish a state administered pool for the investment of local government funds;

(3) Authorize the investment of local public funds through the local government investment pool created by this chapter; and

(4) Permit, upon approval by the State Depository Board, any body created for a public purpose to invest funds through the local government investment pool.

(c) The General Assembly finds that the objectives of this chapter will best be obtained through improved money management, emphasizing the primary requirements of safety and liquidity and recognizing the different investment objectives of operating and permanent funds and the effect of the investment of public funds within the state or its localities upon respective state and local social and economic conditions.