

# Office of the State Treasurer

## Georgia Extended Asset Pool Investment Circular (FY 2021)

### **Structure and Purpose:**

Georgia Extended Asset Pool (GEAP) was established as part of the LGIP Trust and is comprised of a series of individual Target Maturity Portfolios (TMPs). GEAP investments may be invested by subadvisor Invesco, or internally by OST and have maturities up to five years and contain no credit exposure. Each TMP is managed to provide principal and income at maturity consistent with maintaining preservation of principal if held to maturity. GEAP TMPs will have liquidity constraints. Specifically, participant deposits may only be made upon the initial subscription/offering of the portfolios while redemption of proceeds will only occur upon maturity and termination of each portfolio. All earned interest is reinvested within each respective TMP and paid at maturity.

### **Investment Policy and Guidelines:**

GEAP shall invest funds in accordance with the Investment Policy for the Office of the State Treasurer approved by the Board. OST Investment Policy can be found at the following link:

<https://ost.georgia.gov/divisions-offices/investments/ost-investment-policies>

### **Risks:**

#### *Interest Rate Risk*

Interest rate risk is the risk associated with changes in interest rates that could adversely affect the fair value of an investment. GEAP is a series of buy and hold TMPs which are intended to hold securities to maturity. The individual TMPs are not actively managed to respond to interest rate changes.

#### *Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. Changes in an issuer's credit rating or the market's perception of an issuer's creditworthiness may also affect the value of the portfolio's investment in that issuer. OST may utilize an external subadvisor, Invesco, to manage the GEAP portfolios. The GEAP portfolios contain a low level of credit risk utilizing government securities, collateralized deposits or repurchase agreements by OST approved counterparties collateralized by investment grade collateral. All securities purchased by Invesco for the portfolio must adhere to the OST Investment Policy and Invesco's own credit review and oversight process.

#### *Concentration of Credit Risk*

Concentration of credit risk is the risk associated with losses that may occur due to lack of diversification. Concentration of credit risk is mitigated by limiting the percentage of total investments with any one issuer. OST provides Invesco with maximum issuer exposure limits to ensure proper diversification of credit investments.

### *Cyber Security Risk*

OST has third-party insurance coverages designed to insure our agency against defense and liability expenses incurred due to loss/damage caused to LGIP participants by our actions. Through the Department of Administrative Services, the State of Georgia may carry various insurance programs for the protection of State Agencies, Authorities, the University System of Georgia, and the Technical College System of Georgia, some of which may be LGIP participants. DOAS may carry cyber-insurance for certain executive branch agencies, as well as crime and employee dishonesty coverage for all State agencies, authorities, and higher education organizations. DOAS does not carry cyber-insurance coverage for other LGIP participants.

Damage caused by local government participants' actions are not covered by either the State's cyber-insurance plan or the crime and employee dishonesty plan. DOAS programs are designed to cover the actions of State organizations who participate in the various insurance programs. See OST website (<https://ost.georgia.gov>) for the latest cyber-insurance plan information.

### **Ratings:**

The State Treasurer can contract with rating agencies for fund ratings when deemed to be in the best interest of participants and the State. It is at the discretion of the State Treasurer on whether an LGIP pool or a separately managed account will be rated, and which nationally recognized rating agency is selected to rate such LGIP offerings. GEAP portfolios are not currently rated.

### **Yields:**

The participant account value and yield are determined by using the amortized cost valuation method. This involves initially valuing a security at cost and thereafter accreting to maturity any discount or amortizing to maturity any premium, regardless of the impact of changes in interest rates affecting the market value of the underlying investments.

GEAP TMPS are buy and hold investments intended to provide specific yield horizon return. Dividends are reinvested until TMP maturity.

### **Custodian:**

GEAP employs State Street Bank for custodial bank services.

### **Financial Reporting and Audit Information:**

The State Treasurer will produce annual financial statements for the LGIP and will request the Department of Audits and Accounts ("DOAA") to conduct an annual audit of the LGIP. The annual financial statements as of June 30<sup>th</sup> of each fiscal year, including the Auditor's opinion, will be presented to the State Depository Board, and made available to each participant of record.

Financial statements can be found at the following link.

Financials: <https://ost.georgia.gov/financial-reports>

GEAP holdings can be found at the following link.

GEAP Holdings: <https://ost.georgia.gov/investment-financial-reports>

### **Administration Fees and Expenses:**

Administrative fees collected from LGIP participants are to be used to fund expenses related to carrying out the investment functions and operations of the Office of the State Treasurer. According to O.C.G.A. § 36-83-8(l), “payments of amounts for administrative expenses shall be deemed contractually obligated funds held in trust for the benefit of the local government investment pool and shall not lapse” and will be held in trust (the “ LGIP Trust Reserve”) for the benefit of the LGIP. The LGIP Trust Reserve shall retain all unexpended administrative fees and interest earned on the reserve balance. The LGIP Trust Reserve is to be maintained for the benefit of all LGIP participants, whether pooled participants or separately managed accounts, and may be utilized at the discretion of the State Treasurer in the interest of the LGIP. With the approval of the State Treasurer, gains not distributed to current participants of any LGIP Offering may be deposited into the LGIP Trust Reserve. The assets held in the LGIP Trust Reserve are to be used for the benefit of the LGIP, at the discretion of the State Treasurer. The assets held in the LGIP Trust Reserve are to be used for the benefit of the LGIP, at the discretion of the State Treasurer, for any of the following purposes:

- To preserve the liquidity and net asset value of an LGIP Offering or otherwise protect the interests of LGIP participants;
- To offset any realized net losses determined to be significant to the aggregate portfolio in order to preserve the NAV of a pooled LGIP offering;
- For payment of administrative expenses incurred by the State Treasurer in connection with investing state and local government funds, safeguarding assets, and otherwise carrying out activities necessary to preserve and operate the LGIP;
- To stabilize the value of an LGIP Offering intended to maintain a stable NAV due to unexpected withdrawals from participants or other unforeseen circumstances;
- To cover any uninsured losses due to error, omission, or fraud; and
- For continuity of business due to disaster, economic, or market-related issues.

GEAP currently charges an administrative fee of five basis points, which can be reduced or waived by the State Treasurer if deemed necessary.

### **GEAP Account Instructions:**

Contact OST investment staff (by phone at 470-391-0596: or by email at [Investments@treasury.ga.gov](mailto:Investments@treasury.ga.gov)) to inquire about establishing a GEAP account. OST will request new account information for proper account setup and administration.