

# Office of the State Treasurer

## Georgia Fund 1 Investment Circular (FY 2021)

### **Structure and Purpose:**

Georgia Fund 1 (GF1) as part of the LGIP Trust is offered by the State Treasurer to all state departments, boards, bureaus, and agencies or local governments as a conservative and liquid investment option for primary liquidity that seeks to minimize the risk of principal loss while offering daily liquidity, a stable Net Asset Value (NAV), and a competitive rate of return. The State Depository Board (the Board) has authorized the State Treasurer to commingle both state entities and local governments into GF1 to better manage investments for all participants. Georgia Fund 1 deposits are not guaranteed or insured by any bank, the FDIC, the Federal Reserve Board, the State of Georgia, or any other agency.

### **OST Investment Policy:**

GF1 shall invest funds in accordance with the Investment Policy for the Office of the State Treasurer approved by the Board. The OST Investment Policy can be found at the following link:

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

### **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. GF1 uses the Weighted Average Maturity (“WAM”) method to analyze interest rate risk. WAM expresses the average time until maturity for the investments in a portfolio weighted to reflect the dollar size of the individual investments within the portfolio. OST seeks to match investment terms to the cash requirements of the pool.

#### *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. OST manages GF1 internally. The portfolio contains a low level of credit risk utilizing government securities, collateralized deposits or repurchase agreements by OST approved counterparties collateralized by investment grade collateral. In accordance with the OST Investment Policy, OST utilizes a counterparty risk assessment model to assess the credit risk of counterparties that have been approved as repurchase agreement counterparties or depositories. OST assigns maximum exposure limits for each counterparty based upon the counterparty risk assessment model. Exposure limits determine the maturities and collateralization requirements for each counterparty.

#### *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 limits concentration of credit risk by establishing maximum issuer exposure limits based on criteria established using OST’s counterparty risk assessment model.

### *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:**

GF1 follows recommended best practices for stable NAV LGIPs as suggested by the National Association of State Treasurers. This includes providing pertinent information about LGIP's statutory authority, offerings, investment policy and financial information. OST follows voluntary guidelines for the management of stable NAV LGIPs, which recommend utilizing an NRSRO in oversight of the fund.

Voluntary Guidelines for stable NAVs: <https://ost.georgia.gov/ost-operating-policies>

GF1 is currently rated by the following NRSROs:

- Fitch Ratings Inc. AA Af, S1+

### **Yield:**

GF1 annualized yield is calculated and reported on an Actual/365 basis net of administrative fees. OST reports monthly to participants on an amortized cost basis. GF1 yield information can be found at the following link:

GF1 Yield: <https://ost.georgia.gov/divisions-offices/investments/georgia-fund-1>

### **Custodian:**

GF1 employs State Street Bank for custodial bank services.

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

The State Treasurer produces annual financial statements for the LGIP and requests the Georgia 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>

GF1 Holdings can be found at the following link:

GF1 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 retains 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, 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.

GF1 currently charges an administrative fee of five basis points, which can be reduced or waived by the State Treasurer if deemed necessary.

**GF1 Account Instructions:**

All new accounts must be approved by the State Treasurer and reported to the Board. Instructions for opening GF1 account with a GF1 Resolution (including the form itself) can be found on the link below. Instructions for initiating deposits or withdrawals are also included on the link below.

Georgia Fund 1 Resolution Instructions: <https://ost.georgia.gov/forms-and-information>