



## *Office of the State Treasurer*

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### **Local Government Investment Pool (“LGIP”) Trust Policy**

O.C.G.A. § 36-83-2(b)(1) authorizes the State Depository Board (the “Board”) “to establish and maintain a continuing state-wide policy for the deposit and investment of public funds under its control.” In order to better manage the LGIP and safeguard accounts of both the state entities and local governments that benefit from commingling investments to achieve better investment returns and improved liquidity, and to clearly segregate LGIP investments from those state portfolios kept separate and distinct from the LGIP, the Board hereby authorizes the State Treasurer to place assets of the LGIP, inclusive of all pools and separately managed accounts having been approved by the Board as offerings of the LGIP, into a trust to be administered in accordance with OCGA § 36-83-8. This LGIP Trust Policy is intended to provide the framework necessary for the State Treasurer to properly administer and manage investments of the LGIP.

O.C.G.A. § 36-83-2(b) authorizes the Board to establish and maintain a continuing state-wide policy for the deposit and investment of public funds under its control; establishes a state administered pool for the investment of local government funds; authorizes the investment of local public funds through the local government investment pool created by this chapter; and permits, upon approval by the Board, any body created for a public purpose to invest funds through the local government investment pool.

This LGIP Trust Policy is effective as of July 1, 2015 and supersedes all prior written and oral policies. Any deviation from or amendment to this policy must be approved by the Board.

#### **Eligible Participants**

All state departments, boards, bureaus, and agencies (“state entities”) or local governments (as defined in O.C.G.A. § 36-83-3 approved by the Board as required in O.C.G.A. § 36-83-2(b)(4) may make deposits and maintain accounts in the LGIP (“Participants”).

In accordance with O.C.G.A. § 36-83-8(d)(1) which allows the governing authority of any local government having funds “which are available for investment and which are not required by law or by any covenant or agreement with bondholders or others to be segregated and invested in a different manner may direct its financial officer to remit such funds to the State Treasurer for investment as part of the...” LGIP. Any local government approved by the Board may deposit funds in the LGIP as a participant subject to limits established by the State Treasurer for the benefit of all LGIP participants.

According to O.C.G.A. § 36-83-8(b)(2), the State Treasurer is to administer the LGIP on behalf of the participating local governments and O.C.G.A. § 36-83-8(k) provides that the LGIP funds may be placed in a separate trust fund to be administered by the State Treasurer pursuant to policies established by the Board. Furthermore, O.C.G.A. § 36-83-8(k) allows funds in the LGIP to be “consolidated with state funds under the control of the State Treasurer for investment purposes.”

Deposits from local governments, state entities, and the State are eligible to be invested by the State Treasurer in the LGIP subject to the Board's approval of each Participant.

To participate in the LGIP, each local government in accordance with O.C.G.A. § 36-83-2(b)(4), 36-83-4(a)(2), and 36-83-8(d)(2) must execute an authorizing resolution which sets forth those individuals authorized to act on behalf of the participant account, the bank account that funds may be sent to or from, as well as other information required by the State Treasurer in order to effectively safeguard and manage the LGIP. The State Treasurer shall establish authorizing documents for state entities approved by the Board to open participant accounts.

The State Treasurer, in his capacity as administrative officer of the Board and on behalf of and at the direction of the Board, has authority to approve new LGIP participants and accounts between meetings of the Board in circumstances in which the State Treasurer believes immediate approval is needed. Such approvals shall be reported to the Board.

## **Investment Management**

### ***Authorized Investments***

The LGIPs shall invest funds in accordance with the Investment Policy for the Office of the State Treasurer approved by the Board.

### ***Liquidity***

As set forth in O.C.G.A § 50-5A-7, the State Treasurer is required to "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." Further, O.C.G.A. § 50-17-2 specifically authorizes the State Treasurer to invest in any of the securities authorized under O.C.G.A. § 50-17-63(b) "...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 state rate of interest." Therefore, the State Treasurer may enter into repurchase agreements and reverse repurchase agreements in connection with fulfilling the role related to managing the investment and liquidity needs of the State and the LGIP including for purposes of funding redemptions by participants.

### ***Securities Lending***

The Treasurer may lend any securities in the LGIP considering first the probable safety of capital and then probable income to be derived. The Treasurer may utilize its custodian bank or other qualified provider to conduct securities lending activities.

### ***LGIP Offerings***

O.C.G.A. § 36-83-7 allows the Board, through the State Treasurer "to assist local governments in developing effective cash management policies and in investing funds that are temporarily in excess of operating needs." Also, O.C.G.A. § 36-83-8(j) provides that the State Treasurer "shall formulate procedures for the investment and reinvestment of funds in the LGIP and the acquisition, retention, management, and disposition of investments of the LGIP."

In order to efficiently and effectively fulfill these requirements, the Board may approve pools and separate accounts (in aggregate referred to as "LGIP Offerings") each structured by the State Treasurer to achieve specific and distinct investment objectives for participants investing in each offering. With the approval of the Board, the State Treasurer may establish pooled offerings and separate accounts for the benefit of LGIP participants, as necessary for the efficient investment of

participants' funds. The State Treasurer may utilize investment advisors for specific LGIP Offerings when deemed to be in the best interest of participants.

### ***LGIP Investment Objectives***

In concert with the Investment Policy, the State Treasurer shall manage all investment activities in a manner to preserve safety of capital, maintain sufficient liquidity to meet expected participant needs, generate a risk-adjusted market rate of return, and maintain adequate diversification in each LGIP offering. In accordance with O.C.G.A. § 36-83-8(c), the State Treasurer “shall invest moneys in the local government investment pool 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.” In the event of default in the payment of the principal or interest or other income of any investment of the investment pool, the State Treasurer may take steps such steps as authorized in accordance with O.C.G.A. § 36-83-8(h)(3) including but not limited to making compromises, adjustments, or disposition of the matured principal or interest or other income, as the State Treasurer considers advisable for the purpose of protecting LGIP moneys invested.”

### **LGIP Administration**

#### ***Third Party Custodian***

All LGIP funds shall remain in the custody of the State Treasurer in accordance with O.C.G.A. § 36-83-8(g). The State Treasurer is empowered to contract with third-party custodians for custody services may include, but are not limited to, asset custody services, transfer agency services, performance management, and securities lending services. The State Treasurer will maintain oversight of the services provided to the LGIP through periodic assessments and contractual performance monitoring.

#### ***Deposits and Withdrawals***

Upon a participant opening an LGIP account, with the exception of accounts by state entities, it shall adopt and file with the State Treasurer a certified copy of a resolution or ordinance authorizing investment of its funds in the LGIP and, in accordance with O.C.G.A. § 36-83-8(d)(3), a “statement as to the approximate cash flow requirements of the local government for the invested funds.” In order to facilitate subsequent deposits and withdrawals utilizing on-line systems, the State Treasurer may accept additional deposits without further written instructions to the extent that such conditions and instructions are disclosed in the investment circular for such LGIP Offerings.

As provided in O.C.G.A. § 36-83-8(b)(3)(A), the State Treasurer shall develop procedures for the “specification of minimum amounts which may be deposited in the pool and minimum periods of time for which deposits shall be retained in the pool.” The State Treasurer reserves the right to reject any deposit or withdrawal requests that are deemed to disrupt the management of the LGIP.

Any single local government participant's deposits in an LGIP pool offering will be limited to 10% of such LGIP pooled offering assets. This will allow for pool participant diversification and limit significant unexpected redemptions that might negatively impact either the net asset value (“NAV”) or the investment diversification. Exceptions may be made by the State Treasurer if deemed to be in the best interest of the LGIP, the participants, and the State. Any exceptions shall be reported to the Board.

The principal and credited income of each account maintained for a participant in the LGIP shall be subject to payment in accordance with the procedures established by the State Treasurer for each investment pool and separately managed account. Portfolio valuations for LGIP offerings may be

reported to participants at fair value or amortized cost. In the best interest of LGIP participants, the State Treasurer may determine to use either stable NAV or floating NAV for each LGIP offering.

### ***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.

### ***Risk Management***

The State Treasurer will develop policies and procedures to:

- Identify, monitor, and mitigate key investment and operational risks;
- Maintain an appropriate and effective risk management and compliance program that identifies, evaluates, and manages risks within the LGIP;
- Maintain an appropriate and effective control environment for OST investment and operational responsibilities;
- Approve risk allocations and limits, including total fund and asset class risk limitations;
- Maintain internal controls deemed sufficient to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees; and
- Maintain a portion of administrative fees in reserve as necessary to support operations and mitigate unforeseen losses.

The State Treasurer, may purchase third-party insurance coverage to protect LGIP participants from losses resulting from errors or fraud.

As deemed necessary by the State Treasurer, consultants may be hired to review internal controls, systems, and LGIP operations to improve both efficiency, effectiveness, and safety of assets.

### ***Administrative Fees and Expenses***

Pursuant to O.C.G.A. § 36-83-8(b)(3)(B) the State Treasurer has discretion to set administrative fees for each LGIP Offering to be paid from earnings of the respective pools or separately managed accounts. Such fees will be reported to the Board. All state and local participants in a specific LGIP Offering will be assessed the same fee. Such fees will be reported to participants and included in investment circulars for each LGIP Offering.

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, for any of the following purposes:

- To stabilize the net asset value or to purchase any security from the portfolio of an LGIP Offering due to such impaired security;
- 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.

### ***Transparency and Disclosure***

OST will produce an investment circular for each LGIP Offering which shall be available on the OST website and will detail the structure and purpose of the offering, investment policies and guidelines, risks, ratings, yield and net asset value, custodian, financial reporting, audit information, and other information deemed appropriate by the State Treasurer.

In each LGIP offering will be a statement that LGIP deposits are not guaranteed or insured by any bank, the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board, the State of Georgia or any other entity.

The State Treasurer shall provide reports in accordance with O.C.G.A. § 36-83-8(e) including “a monthly report showing the changes in investments made during the preceding month shall be made available to each participant having a beneficial interest” in the LGIP. Yields for LGIP Offerings may be reported to participants at fair value or amortized cost.

The State Treasurer’s delegated authority as described in this section is intended to provide the State Treasurer with sufficient authority and operating flexibility to make professional investment decisions in response to changing market and economic conditions. The State Treasurer will provide the Board with quarterly management summaries of each LGIP Offering. The State Treasurer shall be responsible for reporting to the Board each portfolio balance, maturity or duration distribution, market diversification, and investment performance. The State Treasurer shall establish benchmarks as appropriate for each LGIP Offering.

### ***Financial Reporting***

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>, including the Auditor’s opinion, will be presented to the Board and made available to each participant of record.