



Office of the State Treasurer

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INVESTMENT POLICY FOR APPROVED STATE AGENCY INVESTMENT ACCOUNTS (other than the Office of the State Treasurer)

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POLICY

O.C.G.A. § 50-17-51 stipulates “the State Depository Board shall prescribe cash management policies and procedures and state agencies shall employ the cash management policies and procedures prescribed by the board. Cash management policies and procedures prescribed by the board shall be designed to maximize the efficient and effective utilization of the state’s cash resources for the state as a whole. The board may require state agencies to submit reports and plans on such forms and at such times as the board may prescribe to determine whether an agency is in compliance with the cash management policies and procedures prescribed by the board. The state treasurer shall serve as cash management officer for the state on behalf of the board.”

The State Depository Board (the “Board”) is empowered to create an investment policy to be adhered to by the Office of the State Treasurer and all departments, boards, bureaus, and agencies (“state entities”). Furthermore, the Board has the authority to require state entities to provide the Board with reports to ensure that the departments, boards, bureaus, and agencies are in compliance with the cash management and investment policies set forth by the Board. In addition, pursuant to O.C.G.A. § 50-17-63, each state entity is required to submit reports to the Board detailing all deposits and withdrawals from state depositories.

O.C.G.A. § 50-5A-7 stipulates it shall be the power and duty of the Office of the State Treasurer to invest all state and custodial funds; to invest all health insurance funds; to invest all self-insurance, liability, indemnification, tort claims, workers' compensation, or related funds; and, to invest all other funds in its possession.

The Board has adopted an Investment Policy for the Office of the State Treasurer which stipulates, among other things, the objectives, term of investments, authorized investments, and credit quality requirements of investment accounts managed by the Office of the State Treasurer which reports to the Board. The Investment Policy for the Office of the State Treasurer does not authorize state entities other than the Office of the State Treasurer to invest funds except for those entities that are independently empowered to directly manage investments (“Excluded Entities”).¹

Since most state funds, other than those held by Excluded Entities, are expected to be needed for operating purposes or otherwise remain liquid, O.C.G.A. § 50-17-63(a) requires all demand funds held by any state entity to be deposited in accounts at state depositories to be approved by the Board. In the alternative, with prior approval of the Board, a state entity may be permitted to invest in time deposits or other permitted

¹ Such Excluded Entities include the Board of Regents, as well as, other entities including, but not limited to state authorities, the Georgia Higher Education Savings Plan, the Employee’s Retirement System, the Teachers’ Retirement System and the Georgia Lottery Corporation. A determination of whether an entity is an Excluded Entity may be made by the Board on a case by case basis.

investments and any interest income from the invested funds must be remitted to the State Treasurer as revenues of the State unless specific statutes provide otherwise.

Therefore, the Board has adopted this Investment Policy for Approved State Agency Investment Accounts (“Policy”) to govern investment activity in accounts approved by the Board other than investments managed or overseen by the Office of the State Treasurer or Excluded Entities.

Only State entities that are approved by the Board to establish and maintain investment accounts may rely on the State Agency Investment Policy to invest funds.

PRUDENT MANAGEMENT

It is the policy of the State Depository Board that all funds be invested 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 all State Agency Investment Accounts.

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.

INVESTMENT GUIDELINES

Each approved State Agency shall adhere to this Policy in the investment of assets. Prior to investing assets, an approved State Agency must establish Investment Guidelines for each investment portfolio to assure that credit risk, diversification, and duration are prudently managed and that adequate liquidity is maintained. Investment Guidelines must comply with this Policy and may include further restrictions on investments as necessary to assure that all funds are invested prudently and safely. Investment Guidelines, and any modifications to them, must be submitted to the State Depository Board.

INVESTMENT COMMITTEE

Any State Agency approved by the Board to maintain an investment account must establish an Investment Committee to oversee such investments and assure that investment activity complies with this Policy and Investment Guidelines for such account. Investment Committees must meet at least quarterly.

TERM OF INVESTMENTS

To the extent necessary, a State Agency should attempt to match investments with expected cash requirements. Any illiquid or non-marketable security must have approval from the Board prior to investment.

ELIGIBLE SECURITIES

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

- a) Pursuant to O.C.G.A. § 36-83-4, the State of Georgia Local Government Investment Pools (both Georgia Fund 1 and the Georgia Extended Asset Pool).
- b) Direct obligations of the U.S. Treasury; Obligations issued by the following government sponsored enterprises: Fannie Mae, Freddie Mac, Federal Home Loan Bank and Federal Farm Credit Bank.
- c) Repurchase agreements. Repurchase agreements and reverse repurchase agreements may be transacted with authorized dealers and banks that carry a rating of A1/P1 or higher, are determined to have adequate capital, with maximum exposure per institution based on the credit worthiness of each counterparty. Each approved State Agency investing in repurchase agreements shall implement a counterparty risk assessment methodology to monitor the credit worthiness of each financial institution considered as a counterparty. 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. 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. Collateral must be held by a third party custodian.
- d) Certificates of Deposit (“CD’s”). Certificates of deposit must receive approval from the Board prior to the deposit, may only be made with approved state depositories, and must have reasonable provisions allowing for early redemption in the event the Board requires such deposits to be removed from the state depository. The maximum term of CD’s shall not exceed five years. All CD’s must be fully secured by collateral as 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, marked-to-market at least monthly with depositories required to initially pledge, and thereafter maintain upon notification of any shortfall, collateral having a market value equal to 110% of CD’s.
- e) 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. Each issuer must be evaluated using the counterparty risk assessment utilized to track repo counterparties.
- f) Negotiated investment deposit agreements. With prior approval of the Board, approved State Agencies may place funds pursuant to negotiated investment deposit agreements with banks that are (1) secured by collateral permitted by statute, held by a third-party custodian, marked-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; or (3) fully secured by a surety bond issued by a financial institution approved by the State Depository Board.
- g) Obligations issued by political subdivisions of this state but not issued by the state or its agencies with prior approval of the Board. Such investments, must have a CUSIP number, be DTC eligible, and carry an investment grade rating by one of the three major rating agencies.
- h) Obligations of corporations. Obligations of domestic corporations must be rated investment grade or higher by a nationally recognized rating agency. In the event of a downgrade that renders an obligation ineligible, the investment shall be sold as soon as possible but not more than 90 days thereafter.

UNAUTHORIZED SECURITIES

The following are *NOT* authorized investments for any approved State Agency: derivatives, securities lending or reverse repurchase agreements, leveraged instruments, inverse floating securities, or yankee bonds.

AUTHORIZED INSTITUTIONS

An approved State Agency shall maintain a listing of financial institutions authorized to transact business and monitor the financial condition of each institution. Each depository holding funds shall be approved by the State Depository Board.

CONFLICTS OF INTEREST

Each approved State Agency shall establish procedures to assure that all its 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 and adhere to the Governor's Executive Order for the Code of Ethics.

INVESTMENT MANAGEMENT & ADMINISTRATION

Each approved State Agency shall implement procedures to assure that it safely and effectively manages the receipt, investment, accounting, and disbursement of state funds without interruption. Appropriate performance benchmarks should be established for each portfolio. Upon request, an approved State Agency shall provide reports to the Board including listing of portfolio holdings and transactions.