Scott Meacham
Oklahoma State Treasurer

Investment Policy

January 26, 2010

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OKLAHOMA STATE TREASURER

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1. Mission Statement:

It is the policy of the State Treasurer of Oklahoma to invest public funds in a manner which will provide the maximum security with the best investment return, while meeting the daily cash flow demands of the State and conforming to all state statutes governing the investment of public funds. The investment process will be carried out through competition, proper oversight and financial safeguards.

2. Scope:

This investment policy applies to all funds of the State entrusted to the Treasurer by specific statutory authority. This policy also applies to the investments of state agencies when they request that the Treasurer act as their agent. Only investment transactions included in the list of Authorized Investments (Section 9) are covered by this policy. These funds are accounted for in the Audited Annual Financial Report and include:

2.1 Funds Included:

2.1.1 General Fund
2.1.2 Trust and Agency Funds
2.1.3 Capital Projects
2.1.4 Permanent Funds
Investments on behalf of Permanent funds are included in this policy to the extent that the investing entity has requested that the Treasurer act as their agent and the investment is included in the list of Authorized Investments (Section 9).

2.2 Funds Excluded from this Policy:

As noted above, certain State agencies have specific statutory investment authority and their own investment objectives. These agencies have adopted their own investment policies; accordingly, these funds are excluded from this policy:

2.2.1 Permanent Funds
2.2.2 Pension Trust Funds
Investments on behalf of Permanent funds are excluded from this policy to the extent that the investing entity has requested that the Treasurer act as their agent and the investment is not included in the list of Authorized Investments (Section 9).

3. **Prudence:**

Investments shall be made with 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 the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by an investment officer shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. An Investment Officer acting in accordance with written policies and procedures approved by the Treasurer and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4. **Objectives:**

Given the Authorized Investments (Section 9) permitted under law, the primary objectives, in priority order, of the State's active investment program shall be:

4.1 Safety:

Safety of principal is the foremost objective of the investment program. Investments of the State shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the State will diversify its investments by investing funds among a variety of securities offering independent returns and among various financial institutions.

4.2 Liquidity:

The Treasurer's investment portfolio will remain sufficiently liquid to enable the State to meet all operating requirements which might be reasonably anticipated.

4.3 Return on Investment:

The Treasurer's investment policy shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the State's investment risk constraints and the cash flow characteristics of the portfolio.

Securities shall generally be held until maturity. Securities may be sold due to liquidity needs of the portfolio; to minimize loss of principal; or to improve the quality, yield, or target duration in the portfolio.

5. **Delegation of Authority:**

Authority to manage the State's investment program is derived from 62 O.S. § 89.1a et seq. Management responsibility for the investment program is vested with the Treasurer. The Treasurer is directed to invest the maximum amount of funds under his control consistent with good business practice.

The authority to perform duties related to the investment of State funds may be delegated by the Treasurer to an Investment Officer. The Investment Officer shall engage in investment transactions only in accordance with statutes, administrative rules, this policy, and procedures approved by the Treasurer. The Investment Officer shall not perform or supervise any accounting functions, data processing functions or duties related to the documentation or settlement of investment transactions. In the absence of the Investment Officer, a staff person designated by the State Treasurer as a backup investment officer shall assume responsibility for daily investment of funds. Written authorization to invest by the Investment Officers is forwarded to all authorized dealers and financial institutions. The Treasurer may, at his discretion, appoint an investment advisory committee.

5.1 Investment Procedures:

The Treasurer shall establish a separate written investment procedures manual for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts and cash flow forecasting and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

6. Ethics and Conflict of Interest:

All employees involved in the investment process shall refrain from personal business activity or other activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. In accordance with the law and internal policies, employees shall disclose any conflict of interest or potential conflict of interest and shall sign a non-collusion affidavit relating to the performance of functions of the Office of State Treasurer. See OST Policies and Procedure Manual Chapter 3, Section C. The Office of the State Treasurer has adopted, and employees shall abide by, the rules of conduct dictated by the Constitutional Ethics Rules (74 O.S., Ch.62, App. § 257:1-1-1 et seq.)

7. Authorized Dealers and Financial Institutions:

The Treasurer shall maintain a current list of approved financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers, selected by credit worthiness to provide investment services in the State of Oklahoma. These may include primary dealers, or regional dealers that have a minimum net capital as detailed in Procedures for Authorized Dealers and Financial Institutions. All financial institutions and broker/dealers approved for investment transactions must supply the Treasurer with audited financial statements, proof of Financial Industry Regulatory Authority certification, proof of Oklahoma registration, a completed broker/dealer questionnaire, certificate of having read the State's investment policy and anti-collusion affidavits. Anti-collusion affidavits shall be maintained on file as required by 62 O.S. § 89.9. An annual review of the financial condition and registrations of qualified financial institutions and broker/dealers will be conducted by the Treasurer. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the State invests.

8. Competitive Bidding:

Investment activities shall be conducted with approved financial institutions and security broker/dealers utilizing a system of competitive bidding to the extent practicable taking into account the need to use sound investment judgment. Obtaining, documenting, and retaining quotations shall be made in accordance with approved procedures.

9. Authorized and Suitable Investments:

The Treasurer is permitted under 62 O.S. § 89.2 to invest in the following classes of securities:

9.1 United States Treasury Bills, Notes and Bonds and obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government or any of its agencies and instrumentalities

9.1.1 Maximum maturity of 10 years.

9.2 United States Government Agency Securities

9.2.1 Issued by one of the following agencies:
- 9.2.1.1 Federal National Mortgage Association
- 9.2.1.2 Federal Home Loan Bank
- 9.2.1.3 Federal Farm Credit Bank
- 9.2.1.4 Federal Home Loan Mortgage Corporation
- 9.2.1.5 Government National Mortgage Corporation
- 9.2.1.6 Student Loan Marketing Association

9.2.2 Senior debt and mortgage-backed pass-through securities (MBS) only.

9.2.3 Rating must be Aaa, AAA, or the equivalent

9.2.4 Maximum maturity of 10 years for senior debt.

9.2.5 Purchases may not exceed fifty percent (50%) of the total funds available for investment, with the exception of obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government.

9.2.6 Not more than thirty-five percent (35 %) of the total funds available for investment shall be invested in any one issuer, with the exception of obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government.

9.2.7 Not more than forty percent (40%) of the total funds available for investment shall be invested in mortgage-backed pass-through securities. Permissible investments include securities issued by the Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC) or Federal National Mortgage Association (FNMA) with an average life not to exceed seven (7) years based on Bloomberg Prepayment Speed using street consensus at the time of purchase. In the event that street consensus is unavailable from Bloomberg, a publicly available model shall be used and documented to determine the prepayment speed and average life of a security.

9.3 Collateralized or insured certificates of deposit and other evidences of deposit.

9.3.1 Issued by a bank, savings bank, savings and loan association, or credit union located in this state.
- 9.3.1.1 Amounts uninsured by the FDIC must be collateralized (see Collateralization Section 10.0).
- 9.3.1.2 Issued for up to 365 days, excluding weekends and holidays.
- 9.3.1.3 Not more than $35,000,000 may be invested in certificates of deposit in any one financial institution as specified in this paragraph, subject to the discretion of the State Treasurer to approve a greater amount.

9.4 Negotiable certificates of deposit.

9.4.1 Issued by a nationally or state-chartered bank, a savings bank, a savings and loan association or a state-licensed branch of a foreign bank.
9.4.2 Short-term debt rating must be at least "A-1" by S&P or, "P-1"by Moody's, or the equivalent.
9.4.3 Maximum maturity of 180 days.
9.4.4 Purchases shall not exceed seven and one-half percent (7.5%) of the total funds available for investment.
9.4.5 Not more than two and one-half percent (2.5%) of the total funds available for investment shall be invested in any one financial institution as specified in this paragraph.

9.5 Bankers' acceptances.

9.5.1 Eligible for purchase by the Federal Reserve System
9.5.2 Short-term debt rating must be at least "A-1" by S&P and, "P-1"by Moody's, or the equivalent.
9.5.3 Maximum maturity of 270 days.
9.5.4 Purchases shall not exceed seven and one-half percent (7.5%) of the total funds available for investment.
9.5.5 Not more than two and one-half percent (2.5%) of the total funds available for investment shall be invested in any one commercial bank.

9.6 Commercial paper

9.6.1 Short-term debt rating must be no lower than "A-1" by S&P and"P-1"by Moody's, or the equivalent.
9.6.2 Maximum maturity of 180 days.
9.6.3 Purchases shall not exceed seven and one-half percent (7.5%) of the total funds available for investment.
9.6.4 Purchases shall not exceed five percent (5%) of the outstanding paper of an issuing corporation.
9.6.5 Not more than two and one-half percent (2.5%) of the total funds available for investment shall be invested in the commercial paper of any one issuing corporation.

9.7 Obligations of state and local governments, including obligations of Oklahoma state public trusts.

9.7.1 With respect to obligations of Oklahoma State Trusts, must possess the highest rating from at least one nationally recognized statistical rating organization.
9.7.2 Maximum maturity of 30 years.
9.7.3 Purchases shall not exceed ten percent (10%) of the total funds available for

investment.

9.7.4 Not more than five percent (5%) of the total funds available for investment shall be invested in the obligations of any one issuing government.

9.7.5 The interest rate on variable rate securities must be tied to one of the following indices: LIBOR, Fed Funds, Treasury Bills or Commercial Paper, and must reset no less frequently than quarterly.

9.7.6 The above restrictions are subject to the discretion of the Treasurer. Securities must not be less than investment grade at purchase.

9.8 Repurchase agreements and tri-party repurchase agreements.

9.8.1 Counterparties must have a minimum short-term debt rating of 'A-1', 'A-1+', or the equivalent by both Moody's Investor Service and Standard & Poor's and are either:

9.8.1.1 diversified securities broker-dealers who are members of the National Association of Securities Dealers having $5 billion in assets and $350 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; or

9.8.1.2 a bank, savings bank or savings and loan association having $5 billion in assets and $500 million in capital and regulated by the Superintendent of Financial Institutions, or through an institution regulated by the Comptroller of the Currency, Federal Deposit Insurance Corporation, or Board of Governors of the Federal Reserve System.

9.8.2 Must be collateralized (see Collateralization Section 10).

9.8.3 Counterparties must have a signed Master Repurchase Agreement

9.8.4 Maximum maturity of fourteen (14) days excluding weekends and holidays.

9.8.5 Purchases shall not exceed thirty percent (30%) of the total funds available for investment.

9.8.6 Not more than ten percent (10 %) of the total funds available for investment shall be invested with any counterparty.

9.9 Money market mutual funds and short term bond funds

9.9.1 Only SEC registered 2(A) 7 funds are eligible.

9.9.2 Rating must be "AAA", or the equivalent.

9.9.3 Investments consist of

9.9.3.1 obligations of the United States government and U.S. government sponsored enterprises and obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government or any of its agencies and instrumentalities.

9.9.3.2 repurchase agreements collateralized by obligations of the United States government and U.S. government sponsored enterprises.

9.9.3.4 purchases shall not exceed thirty percent (30%) of the total

funds available for investment.

9.9.3.5 not more than ten percent (10%) of the total funds available for investment shall be invested in any one fund.

9.10 Bonds, notes, debentures or other similar obligations of a foreign government.

9.10.1 Must be listed as an industrialized country by the International Monetary Fund and for which the full faith and credit of such nation has been pledged for the payment of principal and interest.

9.10.2 Shall be rated at least A- or better by Standard & Poor's Corporation or A3 or better by Moody's Investors Service, or an equivalent investment grade by a securities rating organization accepted by the National Association of Insurance Commissioners.

9.10.3 Maximum maturity of 5 years.

9.10.4 Purchases shall not exceed 2.5% of the total funds available for investment. In no circumstances shall investments be made in bonds, notes, debentures or any similar obligations of a foreign government that:

9.10.4.1 is identified as a state sponsor of terrorism by the United States Department of State, or

9.10.4.2 any authoritarian or totalitarian government the sovereign powers of which are exercised through a single person or group of persons who are not elected by any form of legitimate popular voting.

10. **Collateralization for Certificates of Deposit and Repurchase Agreements:**

10.1 Certificates of Deposit

10.1.1 Securities eligible for pledging under 62 O.S. § 72.5 include:

10.1.1.1 obligations of the United States government and U.S. government sponsored enterprises;

10.1.1.2 obligations of this State or of an Oklahoma county, municipality, or school district; an instrumentality of this State or of an Oklahoma county, municipality or school district;

10.1.1.3 general obligation bonds of other states

10.1.2 The initial collateralization level for collateral securities is 110% of the amount deposited with the financial institution plus the interest due at maturity, in excess of the FDIC-insured limit.

10.1.3 Collateral instruments eligible for pledging under 62 O.S. § 72.5 include:

10.1.3.1 letters of credit issued by U.S. government sponsored enterprises acceptable to the State Treasurer.

10.1.3.2 surety bonds issued by certain qualified insurance companies acceptable to the State Treasurer.

10.1.4 The initial collateralization level for collateral instruments is 100% of

the amount deposited with the financial institution plus the interest due at maturity, in excess of the FDIC-insured limit.

10.1.5 Additional limitations are subject to the discretion of the Treasurer.

10.1.6 A collateralization level of 100% must be maintained.

10.1.7 Collateral securities must be held at a Federal Reserve Bank which serves Oklahoma, a Federal Home Loan Bank which serves Oklahoma or an approved safekeeping bank.

10.2 Repurchase Agreements and Tri-party Repurchase Agreements

10.2.1 Transactions for repurchase agreements must be conducted on a delivery versus payment basis.

10.2.2 Collateral for repurchase agreements must be delivered to the Treasurer's master custody institution.

10.2.3 For a tri-party repurchase agreement collateral must be delivered to an approved custodian bank and held in an account for the benefit of the Treasurer.

10.2.4 Securities held as collateral may include obligations of the United States government and U.S. government sponsored enterprises and obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government or any of its agencies and instrumentalities;

10.2.5 The initial collateralization level for securities is 102% of the repurchase price to be paid by the counterparty and the securities must be marked to the market daily.

10.2.6 Securities must be held free and clear of any lien and by an approved independent third party custodian or OST's custodian acting solely as agent for the State and is a Federal Reserve Bank, or a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $500 million.

10.2.7 A perfected first security interest under the Uniform Commercial Code must be created in such securities for the benefit of the State.

10.2.8 A collateralization level of 100% must be maintained.

10.2.9 In the case of tri-party repurchase agreements, the custodian bank may price and verify collateral but is required to provide a report of pricing and adequacy of collateral to the Chief Investment Officer or Comptroller within 24 hours of settlement.

11. **Safekeeping and Custody:**

All investment transactions shall be conducted on a delivery-versus-payment (DVP) basis, unless specifically otherwise designated by the Treasurer. All securities will be held by a third party custodian designated by the Treasurer and will be evidenced by safekeeping receipts or other forms of confirmation. Additional limitations are subject to the discretion of the Treasurer.

12. **Diversification:**

Diversification is desirable in order to reduce overall portfolio risk resulting from an over-concentration of assets. The Treasurer will diversify investments by security type, institution and maturity. With the exception of U.S. Treasury securities and obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government or any of its agencies and instrumentalities, no more than 50% of the State's total funds available for investment will be invested in a single security type or with a single financial institution. The following diversification limitations shall be imposed on the portfolio:

12.1. Securities of United States government sponsored enterprises, with the exception of obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government, may not exceed 50% of the total funds available for investment nor may more than 35% of the total funds available for investment be invested in any one issuer. Mortgage-backed pass-through securities may not exceed 40% of the total funds available for investment.

12.2 Collateralized or insured certificates of deposit and other evidences of deposit may not exceed $35,000,000 in any one financial institution, subject to the discretion of the State Treasurer to approve a greater amount.

12.3 Negotiable certificates of deposit shall not exceed 7.5% of the total funds available for investment, nor may more than 2.5% be invested in any one financial institution.

12.4 Bankers' acceptances shall not exceed 7.5% of the total funds available for investment, nor may more than 2.5% be invested in any one commercial bank.

12.5 Commercial paper shall not exceed 7.5% of the total funds available for investment, nor 5% of the outstanding paper of an issuing corporation; and not more than 2.5% of the total funds available for investment shall be invested in the commercial paper of any one issuing corporation.

12.6 Obligations of state and local governments, including obligations of Oklahoma state public trusts shall not exceed 10% of the total funds available for investment; nor may more than 5% of the total funds available for investment be invested in the obligations of any one issuing government. Above restrictions are subject to the discretion of the Treasurer.

12.7 Repurchase agreements and tri-party repurchase agreements shall not exceed 30% of the total funds available for investment; and not more 10 % of the total funds available for investment shall be invested with any counterparty.

12.8 Money Market Mutual funds shall not 30% of the total funds available for

investment; nor shall more 10% of the total funds available for investment be invested in any one fund.

12.9 Foreign bonds shall not exceed 2.5% of the total funds available for investment.

13. **Maximum Maturities:**

The investment portfolio shall maintain sufficient liquidity to enable the State to meet all operating requirements which might be reasonably anticipated. The balance of the portfolio may be actively managed to meet return on investment objectives of the Treasurer, respecting safety as a first priority. The portfolio shall have an average maturity of not more than four (4) years, unless specifically otherwise designated by the Treasurer. Individual securities shall be limited as follows:

13.1 United States Treasury Securities and obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government or any of its agencies and instrumentalities shall not exceed ten (10) years to maturity.

13.2 Securities of U.S. government sponsored enterprises shall not exceed ten (10) years to maturity. The average life of mortgage-backed pass-through securities shall not exceed seven (7) years based on Bloomberg Prepayment Speed using street consensus at the time of purchase. In the event that street consensus is unavailable from Bloomberg, a publicly available model shall be used and documented to determine the prepayment speed and average life of a security.

13.3 Collateralized or insured certificates of deposit and other evidences of deposit shall not exceed three hundred sixty-five (365) days to maturity, excluding weekends and holidays.

13.4 Negotiable certificates of deposit shall not exceed one hundred eighty (180) days to maturity.

13.5 Bankers' acceptances shall not exceed two hundred seventy (270) days to maturity.

13.6 Commercial paper shall not exceed one hundred eighty (180) days to maturity.

13.7 Obligations of state and local governments including obligations of Oklahoma state public trusts shall not exceed thirty (30) years.

13.8 Repurchase agreements shall not exceed fourteen (14) business days, excluding weekends and holidays.

13.9 Foreign bonds shall not exceed five (5) years to maturity.

14. **Internal Control:**

The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Such control system shall include procedures allowing for a proper segregation of duties, approval of investment transactions, and authorizations for any deviations from policy. The control system shall include policies and procedures designed to reasonably safeguard against the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees.

As promulgated by the Treasurer, procedures for recording investments and auditing investment transactions are specified in the Oklahoma Administrative Code, Title 735:15-1-1 et seq. As required therein, the internal auditor shall determine that the Treasurer's investment policies and procedures adhere to state statutes, relevant administrative rules, and other applicable policies of the Treasurer. In addition, the Treasurer shall submit to independent external audits conducted by the State Auditor and Inspector.

15. **Performance Standards:**

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs.

15.1 Market Yield (Benchmark):

Per (62 O.S. § 89.2(A)), all investments by the Treasurer shall earn not less than the rate for comparable maturities on United States Treasury obligations, unless other provisions of law permit or require a lower yielding investment. The performance goal is to exceed this statutory performance objective. The Cash Management and Investment Oversight Commission, per 62 O.S. § 71.1, has adopted the Merrill Lynch 1 Year U.S. Treasury Note Index as the benchmark for the Treasurer's securities portfolio.

16. **Accounting and Reporting:**

To ensure that each transaction is authorized and executed in accordance with this investment policy, sufficient accounting and electronic records of investment transactions shall be retained in accordance per 62 O.S. § 89.11. Such records shall be available for inspection by the State Auditor and Inspector, the Attorney General and other authorized law enforcement officers.

The Treasurer shall issue periodic investment transaction and performance reports pursuant to 62 O.S. §§ 89.2 and 89.7. Monthly and annual investment performance reports shall describe the portfolio and strategies employed in the most recent reporting period, and holdings shall be marked to market. Such documents shall also summarize

recent market conditions, economic developments, and anticipated investment conditions, as well as investment plan performance, among other items specified by statute. In addition, the Treasurer or his designee shall discuss investment reports and describe investment activities before both the Cash Management and Investment Oversight Commission and the Executive Review Committee established under 62 O.S. § 71.1.

17. **Distribution and Revisions:**

Copies of this written investment policy and any modifications shall be distributed to the Governor, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, the Attorney General, the State Auditor and Inspector, the Bank Commissioner, the Director of State Finance, and each member of the Cash Management and Investment Oversight Commission. A copy shall be maintained in the Treasurer's office for public inspection during regular business hours.

18. **Adoption and Effective Date:**

This policy is formally adopted and takes effect January 26, 2010.