Treasurer of State of Ohio

State Treasury

Statement of Investment Policy

Revised August 8, 2011

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Purpose

The purpose of this document is to identify the policies that will govern the investment activities of the Office of the Ohio Treasurer of State ("Treasurer") with regard to the management of the State Treasury. These policies have been adopted by, and can be changed only by the Treasurer.

These policies are designed to ensure the prudent management of public funds, conformance to the Revised Code ("R.C."), the availability of operating and capital funds when needed, and an investment return competitive with designated financial market indices.

All participants in the investment process shall act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of prudence and professionalism that is worthy of the public trust.

Scope of the Investment Policy

This policy applies to the investment of all interim funds of the State Treasury including the Ohio Lottery Deferred Prizes Trust Fund ("DPTF"). Any practice not clearly authorized under these policies is prohibited. The guidance set forth herein is to be strictly followed by all those responsible for any aspect of the management or administration of these funds.

The State Treasury will consolidate cash and reserve balances from all funds to maximize earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration.

Investment Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity and yield:

1. ***Safety of Principal*** - The safety of interim funds is the single most important objective of the State investment program. **Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.**

    a. Credit Risk

The Treasurer will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in the investment policy.
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

The Treasurer will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates, by:

- Structuring the portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities, money market funds, or similar investment pools and limiting the average maturity of the portfolio.

2. ***Preservation of Liquidity*** - The Portfolio shall be managed in such a manner that assures that funds are available as needed to meet those immediate and/or future operating requirements of the State. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of liquid securities with active secondary markets. A portion of State interim funds may be placed in money market mutual funds or STAR Ohio which offer same day liquidity for short-term funds.

3. ***Yield*** - The Portfolio shall be managed in such a fashion as to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the constraints of reinvestment risk and liquidity needs.

Delegation of Authority

The Treasurer is responsible for the prudent investment of funds within the State Treasury. The Director of Investments is responsible for the implementation of the investment program and the establishment of investment procedures consistent with this policy. 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 Director of Investments. The Director of Investments shall be responsible for all trades undertaken, and shall establish a system of controls to regulate the activities of subordinate officials and shall exercise control over that staff. Investment staff shall be bonded in amounts appropriate to levels of responsibility and portfolio characteristics.

Standard of Prudence

The standard of prudence to be applied to the investment of funds within the State Treasury shall be the industry standard "Prudent Investor Rule," which states:

"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."

Investment staff acting in accordance with this policy or any other written procedures pertaining to the administration and management of the State Treasury and who exercise the proper due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that these deviations are reported immediately to the Treasurer and that appropriate action is taken to control and prevent any further adverse developments.

If market conditions necessitate that the portfolio be rebalanced, this may necessitate the Investment staff to liquidate certain maturities at a net loss.

Ethics and Conflict of Interest

Employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Further, no employee involved in the investment process shall use the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that would create an improper influence upon the public official or employee with respect to that person's duties.

Employees and investment officials shall comply fully with the reporting and disclosure requirements of R.C. Chapter 102 and the Ethics Policy specifically adopted by the Ohio Treasurer.

Authorized Instruments

The Treasurer of State is authorized to place the State Treasury in instruments as described in R.C. Sections 135.13 and 135.143, as summarized and restricted below:

A. **U.S. Treasury Obligations.** United States Treasury bills, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States.

B. **Federal Agency Obligations.** Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality.

C. **Repurchase Agreements.** Investments in repurchase agreements if the following conditions are met:

1. the contract is fully secured by deliverable obligations set forth in R.C. Section 135.143 A (4) maturing in no more than ten (10) years from the date of purchase and having a market value of at least one hundred-two percent (102%) of the amount of the contract;

2. a master repurchase agreement or specific written, repurchase agreement governs the transaction;
3. the repurchase agreement has a term to maturity of no greater than ninety (90) days;
4. the repurchase agreement is transacted on a delivery versus payment basis;
5. the securities are held free and clear of any lien and by an independent third party custodian acting solely as agent for the State and is:
   a. a Federal Reserve Bank, or
   b. 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 $25 million;
6. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 Code of Federal Regulations ("C.F.R.") 306.1 et seq. in such securities is created for the benefit of the State;
7. for repurchase agreements with terms to maturity of greater than one (1) day, the Director of Investments or his designee will value the collateral securities daily unless market conditions warrant more frequent valuation and require that if additional collateral is required then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated.);
8. substitutions of collateral will be permitted only with advance written approval of an authorized Treasury employee;
9. the State will enter into repurchase agreements only with reputable firms that are:
   a. primary government securities dealers who are members of the National Association of Securities Dealers, report daily to the Federal Reserve Bank of New York and have $25 billion in assets and $350 million in capital, or
   b. a financial institution meeting the requirements of R.C. Section 135.03 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.

D. **Commercial paper.** Unsecured short-term debt of corporations incorporated under the laws of the United States or a state if the following conditions are met:
1. the maturity is no greater than one hundred-eighty days (180) days;
2. the total amount invested in commercial paper at any time does not exceed twenty-five percent (25%) of the Total Average Portfolio;
3. the total holdings of an issuer's paper does not represent more than five percent (5%) of the issuing corporation's total outstanding commercial paper; and
4. the short-term debt rating, at the time of purchase, is at least "A1" or equivalent by all NRSROs that rate the issuer. Under all circumstances, a minimum of two short-term debt ratings must be available.

E. **Bankers' acceptances** of any domestic bank or federally chartered domestic branch office of a foreign bank if the following requirements are met:
1. the maturity is no greater than two hundred-seventy (270) days;
2. the securities are eligible for purchase by the Federal Reserve System;
3. the total amount invested in bankers acceptances at any time does not exceed ten percent (10%) of the Total Average Portfolio;

4. the amount invested in any single issuer will not exceed five percent (5%) of the Total Average Portfolio on the date of acquisition; and
5. the issuer, at the time of purchase, has a minimum "AA" long-term debt rating ("AAA" for foreign banks) by a majority of the NRSROs that have rated the issuer. The short-term debt rating, at the time of the purchase, must be at least "A1" or equivalent by all of the NRSROs that rate the issuer (minimum of two ratings must be available).

F. **Corporate Notes.** Investment grade debt obligations issued by corporations that are incorporated and operating under the laws of the United States or a state, which meet the following requirements:

1. the maturity is no greater than two (2) years at the time of purchase;
2. the total amount invested in corporate notes at any time does not exceed five percent (5%) of the Total Average Portfolio;
3. has a minimum "Aa" long term debt rating by Moody's Investors Service and a minimum "AA" long term debt rating by Standard & Poor's at the time of purchase; and
4. the amount invested in any single issuer does not exceed one-half of one percent (0.5%) of the Total Average Portfolio on the date of acquisition.

G. **Foreign Debt.** Investment grade debt obligations issued by foreign nations diplomatically recognized by the United States government, which meet the following requirements:

1. the maturity is no greater than five (5) years at the time of purchase;
2. the interest and principal is denominated and payable in United States funds;
3. the total amount invested in foreign notes at any time does not exceed one percent (1%) of the Total Average Portfolio;
4. is backed by the full faith and credit of that foreign nation;
5. is guaranteed as to principal and interest by the United States or debt interest which is rated in the three highest categories by two nationally recognized rating agencies if either the debt interest itself or the issuer of the debt interest is rated, or implicitly rated at the time of purchase in the three highest categories by two nationally recognized ratings agencies; and
6. the amount invested in any single issuer does not exceed in the aggregate one percent (1.0%) of the Total Average Portfolio on the date of acquisition.

H. **Obligations of the State of Ohio.** Bonds and other direct obligations of the sinking fund of the State of Ohio issued by the Treasurer and of the Ohio Public Facilities Commission, the Ohio Building Authority and the Ohio Housing Finance Agency.

I. **Bank Deposits.** Time certificates of deposit or savings or deposit accounts in an eligible institution as defined in Section 135.04 of the R.C. Collateralization is required on all deposits of State funds by Section 135.18 of the R.C. Any time certificate of deposit, with the exception of those related to a linked deposit program, shall mature not more than one year from the date of deposit, as required by R.C. Section 135.13. Any certificate of deposit placed as part of a linked deposit program shall meet the applicable statutory maturity requirements.

J. **State Pool.** State of Ohio Local Agency Investment Pool (STAR Ohio) authorized under R.C. section 135.45.

K. **Registered Investment Companies (Mutual Funds.)** Shares in open-end, no-load money market mutual funds provided such funds are registered under the Federal Investment Company Act of 1940 and invested exclusively in U.S. Treasury Obligations, Federal Agency Obligations, commercial paper and repurchase agreements secured by such obligations. The fund must be rated "AAm" or "AAm-G" or better by Standard & Poor's Corporation, or the equivalent by another NRSRO. The fund must also be properly registered for sale in the State of Ohio.

Securities Lending

Pursuant to R.C. Section 135.143 and 135.47, the State may engage in securities lending, subject to policies adopted by the Treasurer. The Securities Lending Policy is included as an Appendix to this policy.

Diversification

Each Portfolio shall be structured to diversify investments to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific type of security. The maximum percentage of the Total Average Portfolio permitted in each eligible security is as follows:

A.	U.S. Treasury	100% maximum
B.	Federal Agency* (Fixed Rate)	100% maximum
C.	Federal Agency* (Callable)	55% maximum
D.	Federal Agency* (Variable Rate)	10% maximum
E.	Repurchase Agreements	25% maximum
F.	Bankers' Acceptances	10% maximum
G.	Commercial Paper	25% maximum
H.	Corporate Notes	5% maximum
I.	Foreign Notes	1% maximum
J.	Certificates of Deposit	20% maximum
K.	Municipal Obligations	10% maximum
L.	STAR Ohio	25% maximum
M.	Mutual Funds	25% maximum

*Includes Federal government agency or instrumentality securities

Each Portfolio will be further diversified to limit the exposure to any one issuer. No more than two percent (2%) of the Total Average Portfolio will be invested in the securities of any single issuer with the following exceptions:

1.	U.S. Treasury, Agency or Instrumentality Obligations	100% maximum
2.	Repurchase Agreements Counterparties	the lesser of 5% or $250 million,
3.	Mutual Funds	10% maximum
4.	Commercial Paper	5% maximum

Maximum Maturity

Maintenance of adequate liquidity to meet the cash flow needs of the State is essential. Accordingly, each Portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with the cash requirements in order to avoid the forced sale of securities prior to maturity.

For purposes of this investment policy, assets of the Regular Account Portfolio shall be segregated into two general categories based on expected liquidity needs and purposes - short-term funds and long-term funds. Assets categorized as short-term funds will be invested in permitted investments maturing in eighteen (18) months or less. The average weighted maturity of the short-term assets will not exceed ninety (90) days. Assets categorized as long-term funds will be invested in permitted investments with a stated maturity of no more than five (5) years from the date of purchase unless the security is matched to a specific obligation or debt of the State. The purchase of any security with a maturity of greater than five (5) years must be approved in advance by the Treasurer of State. To control the volatility of the assets categorized as long-term funds, the Treasurer of State will determine a duration target, not to exceed three (3) years.

The Lottery Defined Prizes Trust Fund ("DPTF"), as defined in R.C. Section 3770.06, will be invested in permitted investments with a stated maturity of no more than thirty (30) years from the date of purchase. When necessary, the DPTF will be permitted to exceed the two percent (2%) single issuer limitation for federal agency and instrumentality security purchases only.

Notwithstanding these limitations, in no case will the assets in either Portfolio be invested in securities with a term to maturity that exceeds the expected disbursement date of those funds.

Variable Rate and Structured Notes

The use of variable rate notes (VRNs) issued by U. S. Federal Agencies is considered to be prudent in the management of the Portfolio provided that the following criteria are met:

1. The ultimate maturity of the VRN is less than three (3) years at the time of purchase.

2. The rate on the VRN resets with a frequency that produces a close tracking with money market rates.

3. The VRN is indexed to a money market rate such as Federal Funds, the 3-month Treasury Bill or LIBOR, that correlates very highly ninety-five percent (95% or greater) with overall changes in money market rates even under wide swings in interest rates.

4. Any cap on the interest rate is at least 15.00% (1500 basis points) higher than the coupon at time of purchase.

5. No more than ten percent (10%) of the Total Average Portfolio will be invested in variable rate notes.

6. For each VRN held in the Portfolio, the Director of Investments will prepare a written analysis establishing a justification for purchasing and holding the VRN addressing particularly the actual correlation of the VRN rate to money market rates such as LIBOR, Federal Funds and/or short-term Treasury Bills over a historic period that encompasses both rising and falling interest rates. This written analysis will also include a projection of yield and price volatility for interest rate movements of up 300 basis points and down 300 basis points and will be presented to the Treasurer.

7. The Director of Investments will use pricing services, pricing matrices and "theoretical" pricing models to calculate the market value of all VRNs held in the Portfolio and will regularly receive and record actual bids on all VRNs. Any material variances between standard pricing and actual bids will be reported immediately to the Treasurer. (A material difference is one in which the actual bid falls below .99 of the standard pricing or book value of the VRN.) Further, the value of actual bids received will be used to value the portfolio holding.

Prohibited Investments and Investment Practices

The Treasurer is expressly prohibited from the following investments and investment practices. This is not an exclusive list.

1. Short sales (selling a specific security before it has been legally purchased).

2. Investment in complex derivatives such as range notes, dual index notes, inverse floating rate notes and de-leveraged notes, or notes linked to lagging indices or to long-term indices.

3. Collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICS).

4. Investing in any security not specifically permitted by this Policy.

Monitoring and Adjusting the Portfolio

The authorized investment officers responsible for the day-to-day management of the Portfolios will routinely monitor the contents of each Portfolio, the available markets and the relative values of competing instruments, and will adjust each Portfolio as necessary to meet the investment objectives listed above. It is recognized and understood that this non-speculative active management of Portfolio holdings may cause a loss on the sale of an owned investment. It is the policy of the State to charge any such loss against the interest income account during the month in which the loss was realized.

The State of Ohio Office of Budget and Management, on a quarterly basis, allocates the net income/losses earned on investments of the Regular Account Portfolio to various funds based each fund's cash balance in proportion to the State Treasury as a whole.

Internal Controls

The Director of Investments shall establish and be responsible for monitoring a system of internal controls governing the administration and management of the Portfolio, and these controls shall be documented in writing. These controls shall be designed to prevent and control losses of the State funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by any personnel. The internal controls will address: control of collusion, separation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, written confirmation of telephone transactions and documentation of investment transactions. The Internal Audit department of the Treasury shall also have independent authority to scrutinize and report on all operation of internal controls within the Investment Department and shall be given full access to personnel and records to carry out its intended functions.

As part of the annual audit, the Treasurer shall have the investment program reviewed by the Auditor of the State of Ohio or his/her designee. This audit will be designed to establish asset and liability valuations and measure compliance with the State investment policies and procedures. The Treasurer, at his or her discretion, may contract with an independent firm to audit the State investment program.

Authorized Financial Institutions and Broker/Dealers

An internal list will be maintained of financial institutions, depositories and advisors authorized to provide investment services to the State Treasurer. In addition, a list will be maintained of broker/dealers who have been approved to cover the State's portfolios. An organized evaluation process will be utilized by the Treasurer of State to determine the approval status and coverage parameters of qualified broker/dealers.

Qualified firms will be limited to "primary" dealers and other dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) that are registered with the Ohio Department of Commerce to do business in the State of Ohio. All financial institutions and broker dealers must provide the following information, on an semi-annual basis:

1. Annual financial statements.

2. Regulatory history, through either the Office of the Comptroller of the Currency for dealer banks, or the NASD for securities firms.

3. Statement of any pending lawsuits materially affecting the firm's business.

4. A completed "Broker/Dealer Request for Information" as detailed in the Appendix to this policy.

Financial institutions and broker/dealers will be required to sign and return this policy and to pledge to offer for sale only appropriate securities.

Selection of Investment Instruments

It will be the policy of the Treasurer to transact all securities purchase/sales only with approved financial institutions through a competitive process. The State will accept the offer which (a) has the highest rate of return within the maturity required; and (b) optimizes the investment objective of the overall portfolio. When selling a security, the Treasurer will select the bid that generates the highest sale price.

Primary fixed price Federal Agency offerings may be purchased from the list of qualified broker/dealers without competitive solicitation.

In making investment decisions, all other things being equal and subject to compliance with any applicable Internal Revenue Code requirements for bond proceeds, investment in corporations and financial institutions doing business in the State of Ohio will be given preference over other investment options.

Investment of Bond Proceeds

It shall be the duty of the Treasury's debt manager, with the assistance of financial advisors, to ensure that the Treasurer complies with all applicable sections of the Internal Revenue Code of 1986, Arbitrage Rebate Regulations and bond covenants with regard to the investment of bond proceeds. The Treasury's debt manager shall cooperate with the Director of Investments to ensure that the State's issuance of variable rate debt is considered in conjunction with the effect that the liquidity requirements of such debt may have on the investment returns of the Treasury portfolio.

Safekeeping and Custody

All investment securities purchased by the Treasurer or held as collateral on deposits or investments shall be held in third-party safekeeping at the Federal Reserve Bank of Cleveland or at a secured and insured depository as required by R.C. Section 113.05.

All securities in the Portfolio shall be held in the name of the Treasurer of State of Ohio and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs.-payment basis. The depository shall issue a safekeeping receipt to the Treasurer listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will also provide reports which list all securities held for the Treasurer, the book value of holdings and the market value as of month-end.

Appropriate Treasury officials and representatives of the depository responsible for, or in any manner involved with, the safekeeping and custody process of the State shall be bonded in such a fashion as to protect the State from losses from malfeasance and misfeasance.

Performance Standards

The Portfolios shall be designed and managed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the State. Short-term funds will be compared to the return on an institutional money market mutual fund with comparable investment restrictions. The long-term portfolio will be compared to an index of U.S. Treasury securities and U.S. Government/Government backed obligations having a similar duration or other appropriate benchmark. Linked deposit investments will be excluded for purposes of computing investment performance.

Reporting

The Investment and Trust departments shall maintain accurate, complete, and timely records of all investment activities. Within ten (10) business days of the end of the month, the Director of Investments shall submit an investment report to the Treasurer. This report shall include: (i.) a listing of the existing Portfolios in terms of investment securities, amortized book value, maturity date, return, market value and other features deemed relevant, (ii.) a listing of all transactions executed during the month, (iii.) the total return of the Portfolios, and (iv.) a summary of linked deposit investments. The market values presented in these reports will be consistent with accounting guidelines in GASB Statement 31 pertaining to the valuation of investments and the treatment of unrealized gains/losses. The report will also include a statement that the investments of the State Treasury are in compliance with this investment policy. The report will be submitted to the Board of Deposit on a monthly basis and will be fully accessible to the public on the Treasury website. The Director of Investments will also prepare annual reports in sufficient detail to provide full disclosure of all investment activities to the Treasurer and the general public.

Conflict of Law

In the event that any portion of this policy is in conflict with any State or federal law, that law will prevail.

Investment Policy Adoption

This policy is adopted this 8th day of August, 2011

Gordon Short
Chief Investment Officer
Ohio Treasurer Josh Mandel