Treasurer of State of Ohio

STAR Ohio

Statement of Investment Policy

Adopted December 1st, 2009

Statement of Investment Policy

Treasurer of State of Ohio
STAR Ohio

Table of Contents

Purpose and Scope ____ *1*
Investment Objectives ____ *1*
Delegation of Authority ____ *2*
Standard of Prudence ____ *2*
Ethics and Conflict of Interest ____ *3*
Authorized Investments ____ *3*
Diversification ____ *5*
Maximum Maturity ____ *6*
Standard & Poor's Rating ____ *7*
Securities Lending ____ *7*
Variable Rate and Structure Notes ____ *7*
Prohibited Investments and Investment Practices ____ *8*
Monitoring and Adjusting the Portfolio ____ *9*
Internal Controls ____ *9*
Eligible Banks and Broker/Dealers ____ *9*
Competitive Selection of Investment Instruments ____ *10*
Investment of Bond Proceeds ____ *10*
Safekeeping and Custody ____ *10*
Performance Standards ____ *11*
Reporting ____ *11*
Investment Policy Adoption ____ *11*

Treasurer of State of Ohio
STAR Ohio
Statement of Investment Policy

Purpose and Scope

State Treasury Asset Reserve of Ohio ("STAR Ohio" or "STAR") is an investment pool managed by the Ohio Treasurer of State. Participation is offered to subdivisions of the State of Ohio as defined in Section 135.45 (F) (2) (a), Ohio Revised Code, by the Ohio Treasurer of State.

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

These policies are designed to ensure the prudent management of public funds, conformance to the Ohio Revised Code ("R.C."), the availability of operating and capital funds when needed, an investment return competitive with comparable funds and financial market indices, and that STAR maintains the highest rating provided by at least one nationally recognized statistical rating organization ("NRSRO") as selected by the Office of the Ohio Treasurer of State. The guidance set forth herein is to be strictly followed by all those responsible for any aspect of the management or administration of STAR Ohio. Exceptions to the policy may be made at the discretion of the Treasurer or Deputy Treasurer in the event that compliance would conflict with the prudent management of public funds.

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 professionalism that is worthy of the public trust.

Investment Objectives

The STAR Ohio portfolio shall be managed to accomplish the following hierarchy of objectives:

1. *Preservation of Principal* – Safety of principal is the foremost objective of the investment program. This is evidenced by the maintaining of the 'AAAm' rating from Standard & Poor's. Investments of STAR Ohio shall be undertaken in a manner that seeks to insure the stable net asset value of $1.00 per share. At no time will the safety of the portfolio's principal be impaired or jeopardized. Safety is herein defined as the certainty of receiving full par value plus accrued interest, at the securities legal final maturity.

2. *Maintenance of Liquidity* - The STAR Ohio investment portfolio will remain sufficiently liquid to enable the fund to meet all operating requirements. Portfolio liquidity is defined as the ability to sell a security on a short notice near the par value of the security. To help retain the desired liquidity, no issue shall be purchased that

is likely to have few market makers or poor market bids. Additionally, liquidity shall be assured by keeping an adequate amount of short-term investments in the portfolio to accommodate the cash needs of the fund.

3. *Maximize Return* - The STAR Ohio portfolio shall be structured with the objective of attaining a market rate of return, taking into account the risk constraints and the cash flow characteristics of the STAR Ohio clients.

Delegation of Authority

The Treasurer of State is responsible for the prudent investment of STAR Ohio. 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 transactions undertaken, 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. The Treasurer of State may engage one or more outside firms to assist with the administration and management of STAR. Should any firm be hired to provide advice or assistance with regard to the management of the STAR portfolio, that firm shall be a registered investment advisor under the Investment Company Act of 1940.

Standard of Prudence

The standard of prudence to be applied to the investment of the STAR Ohio portfolio 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 STAR Ohio portfolio 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 of State and that appropriate action is taken to control and prevent any further adverse developments.

If market conditions necessitate that the STAR Ohio 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..

Authorized Investments

The State Treasurer is authorized to invest assets of the STAR fund as described in R.C. Section 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 'AAA' rated federal government agency or instrumentality, except Collateralized Mortgage Obligations.

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

1. the contract is fully secured by deliverable U.S. Treasury and Federal Agency Obligations maturing in no more than 10 years, 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 (which may include a tri-party arrangement) 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 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 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 have a short-term debt rating of 'A-1' or higher from Standard & Poor's and 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,

   b. 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, or

   c. 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; and

10. the total holdings of repurchase agreements do not represent more than fifty (50%) of STAR's Total Average Portfolio, provided that:

    a. no more than 10% of the portfolio is invested in repurchase agreements maturing in greater than 7 days unless those longer-term repurchase agreements have a 7-day put; and

    b. no more than 10 percent (10%) or $500 million (whichever is less) will be invested with any one repurchase agreement counterparty.

D. Commercial paper. Unsecured short-term debt (including asset-backed commercial paper) 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 holdings of an issuer's paper does not represent more than five percent (5%) of the issuing corporation's total outstanding commercial paper;

3. the short-term debt rating is at least 'A1' or equivalent by all NRSROs that rate the issuer at the time of purchase (under all circumstances, a minimum of two short-term debt ratings must be available), and

4. a written credit analysis is prepared for any investment in commercial paper of an issuer that is on "negative outlook" or "negative credit watch" explaining why the investment does not pose an unreasonable credit risk to the STAR portfolio.

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; and

3. the issuer has a minimum 'AA' long-term debt rating ('AAA' for foreign banks) by a majority of the NRSROs that rate the issuer. The short-term debt rating must be at least 'A1' or equivalent by all of the NRSROs that rate the issuer.

F. **Bank Deposits.** Time certificates of deposit or savings or deposit accounts in an eligible institution defined in R.C. Section 135.08. Collateralization is required on all deposits by R.C. Sections 135.18 and 135.181.

G. **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 operated in accordance with 17 C.F.R. 270.2a-7 and invest exclusively in U.S. Treasury Obligations, Federal Agency Obligations, commercial paper and repurchase agreements secured by such obligations. The fund must be rated 'AAAm' or 'AAAm-G' or better by Standard & Poor's Corporation. The fund must also be properly registered for sale in the State of Ohio.

Diversification

The 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 (all maturities)	50% maximum
F.	Repurchase Agreements (maturities over 7 days)	10% maximum
G.	Bankers' Acceptances	10% maximum
H.	Commercial Paper	25% maximum
I.	Bank Deposits	10% maximum
J.	Mutual Funds	25% maximum

The STAR Portfolio will be further diversified to limit the exposure to any one issuer. No more than 2% of the STAR's Total Average Portfolio will be invested in the securities of any single issuer with the following exceptions:

U.S. Treasury Obligations	100% maximum
Federal Agencies Obligations	33% maximum
Repurchase Agreements Counterparties	10% or $500 million, whichever is less
Mutual Funds	10% maximum

For purposes of this Policy, STAR's Total Average Portfolio will be equal to the average month-end balance for the prior 12-month period.

Maximum Maturity

Maintenance of adequate liquidity to meet the cash flow needs of the local government investors in STAR is essential. Accordingly, the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. No investment shall be made that has a final stated maturity exceeding 397 days or that will cause the weighted average maturity of the portfolio to exceed sixty (60) days.

For purposes of the policy, the maturity of a security will be deemed to be the period remaining until the maturity date, except that:

A. a repurchase agreement transaction shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur, or where no date is specified, but the agreement is subject to demand, the notice period applicable to a demand for the repurchase of the underlying securities;

B. a security with an unconditional and irrevocable put shall be deemed to have a maturity equal to the period remaining until the next put date;

C. a marketable Federal Agency Obligation which has a variable rate of interest shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate;

D. a marketable Federal Agency Obligation which has a variable rate of interest and is subject to a demand feature shall be deemed to have a maturity equal to the shorter of the

period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand; and

E. a callable security for which the issuer has given notice of its intent to call is deemed to have a maturity equal to the period remaining until the date on which the security will be called.

Standard & Poor's Rating

STAR Ohio will evidence its superior capacity to maintain principal ($1.00 per share value) and limit exposure to loss by maintaining a Standard & Poor's 'AAAm' fund rating. Specifically, STAR will comply with the following standards:

A. all securities held by STAR Ohio will be rated the equivalent of 'A-1+' or 'A-1';

B. at least 50% of the Total Average Portfolio will be rated 'A-1+' or better;

C. no more than 25% of the STAR Total Average Portfolio will be lent;

D. no portfolio holding will have a final maturity of greater than 397 days, except for variable rate instruments as described below; and

E. the weighted average maturity of the portfolio will not exceed 60 days.

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 Ohio Treasurer of State. The Securities Lending Policy is included as an Appendix to this policy.

Variable Rate and Structure Notes

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

1. the ultimate maturity of the VRN is less than two 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 (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 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 which will be presented to the Treasurer of State; and

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 of State. (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.

In no event will funds be invested in rage notes, dual index notes, "deleveraged" notes (notes linked to a multiple of the index where the multiple is less than one), or notes linked to lagging indices or to long-term indices.

Prohibited Investments and Investment Practices

The State 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 deleveraged 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. Reverse repurchase agreements;

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

Monitoring and Adjusting the Portfolio

The STAR Ohio portfolio will be managed in a manner to maintain a stable net asset value per share of $1.00 using the amortized cost method of valuation. The net asset value of STAR Ohio is to be determined at 1:30 P.M., Eastern Time, on each day that the Federal Reserve System is open for business. The net asset value per unit will be computed by dividing the total value of the assets of STAR, less its liabilities, by the number of units outstanding. If the STAR Ohio portfolio's current market-based net asset value per share should deviate from its amortized cost price per share by an amount exceeding ½ of 1 percent, the Director of Investments shall assess the situation and take appropriate action to eliminate or reduce, to the extent reasonably practical, dilution or unfair results.

Those responsible for the day-to-day management of the State portfolio will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments, and will adjust the 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 book gain or loss on the sale of an owned investment. It is the policy of the State to distribute any such gain or loss during the month in which the gain or loss was realized.

Internal Controls

The Internal Audit Department shall establish and be responsible for monitoring a system of internal controls governing the administration and management of the STAR Ohio portfolio, and these controls shall be documented in writing. Such controls shall be designed to prevent and control losses of the 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, minimizing the number of authorized investment officials and documentation of investment transactions.

As part of the annual audit, the Treasurer of State 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 State Treasurer at his or her discretion may contract with an independent firm to audit the STAR Ohio investment program

Eligible Banks and Broker/Dealers

The Treasurer of State will establish and maintain a list of eligible brokers, dealers, and banks with which investment transactions can be made. 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:

1. Annual financial statement, as well as most recent quarterly statement.

2. Regulatory history, through either the Office of the Comptroller of the Currency for dealer banks, or the NASD (currently known as FINRA) 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 comply with this policy and to pledge to offer for sale only appropriate securities.

Competitive Selection of Investment Instruments

It will be the policy of the State to transact all securities purchase/sales only with approved financial institutions through a formal and 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 State will select the bid that generates the highest sale price. If there is a tie bid between one or more brokers, the State Treasurer will award the winning bid to the brokers on a rotating basis.

It will be the responsibility of the personnel involved with each purchase/sale to produce and retain written records of each transaction including the name of the financial institutions solicited, rate quoted, description of the security, investment selected, and any special considerations that had an impact on the decision. If the lowest priced security (highest yield) was not selected for purchase, an explanation describing the rationale will be included in this record.

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

The State intends to manage STAR in a manner that will allow it to qualify as a commingled fund for arbitrage purposes (see section 148(f) of the Internal Revenue Code of 1986). STAR will accept bond proceeds subject to arbitrage rebate.

Safekeeping and Custody

All investment securities purchased by the State or held as collateral on deposits or investments shall be held in third-party safekeeping at a public depository as required by R.C. Section 135.03.

All securities in the STAR Portfolio shall be held in the name of the State and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs.-payment basis. All purchases and sales will be transacted on a cash, regular (next day) or "skip-

day" settlement basis. The depository shall issue a safekeeping receipt to the State 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 State, 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 investment portfolio shall be designed and managed with the objective of obtaining a competitive market rate of return that takes into account the risk constraints and the cash flow characteristics of the STAR Ohio participants. The portfolio shall be compared to the average of three-month U.S. Treasury Bill returns for the equivalent period.

Reporting

The Director of Investments shall maintain accurate, complete, and timely records of all investment activities. Within five (5) business days of the end of the month, the Director of Investments shall submit an investment report to the Treasurer of State. This report shall include: (i) a listing of the existing portfolio 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, and (iii) the monthly distribution rate. 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 investment of the STAR Ohio portfolio is in compliance with this investment policy. The Director of Investments will also prepare annual reports in sufficient detail to provide full disclosure of all investment activities to the Treasurer of State, STAR participants and the general public.

Investment Policy Adoption

This policy is adopted this 1st day of December, 2009

Kevin L. Boyce
Treasurer, State of Ohio