



STATE OF IDAHO

OFFICE OF THE STATE TREASURER

RON G. CRANE STATE TREASURER

TAN Investment Policy

SCOPE

The investment policy applies to the investment of money received by the Idaho State Treasurer's Office from the issuance of the Tax Anticipation Note ("Proceeds") and the investments placed into the Tax Anticipation Notes escrow account ("Redemption").

OBJECTIVES

All funds will be invested in accordance with Section 67-1210, Idaho Code. The primary objectives of investment activities in order of priority shall be safety, liquidity, and yield:

- Safety

Safety of principal is the foremost objective of the 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.

- Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash needs cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.

- Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to safety and liquidity objectives described above.

The steps above are listed in order of importance and will always be taken into account when the Treasurer's Office makes the decision to invest in a specific instrument.

The investment policy requires active portfolio management which means constant monitoring and pricing of the portfolio, the markets, the values of instruments and adjustments within the portfolio according to the limits of the policy.



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STATUTORY AUTHORITY

According to Section 67-1201, Idaho Code, the State Treasurer is a custodian of the public confidence and is ultimately responsible for conducting investment transactions.

STANDARDS OF CARE

The standard to be used by investment personnel will be the 'Prudent Investor' rule, Section 67-1210, and any applicable Idaho Code. This concept will be applied in the context of managing the overall portfolio where the 'prudent investor' is reasonable, well informed and not a professional investor "prudent expert." The "prudent investor" concept implies that we must act as a prudent person would be expected to act, with discretion and intelligence, to preserve capital, seek reasonable income, and in general avoid speculative investments.

ETHICS

Officers and employees involved in the investment process shall refrain from engaging in personal business activities affected by their duties and responsibilities as investors of public funds, that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the entity.

INTERNAL CONTROL

The State Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

Accordingly, the State Treasurer shall establish a process for an annual independent review by an auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion,
- Segregation of duties,
- Clear delegation of authority to subordinate staff members,
- Procedures to consummate a purchase or sale of a security,
- Written confirmation of investment and wire transfer transactions.



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A. Legal Investments

Investments in the Proceeds account will be made in accordance with Section 67-1210, Idaho Code.

Pursuant to the Plan of Finance, all moneys in the Redemption account shall be invested only in the following investments permitted by Section 67-1210, Idaho Code; (i) direct obligations of the Federal Government, or (ii) fully collateralized time certificates of deposit or fully collateralized repurchase agreements. No moneys in the Redemption account shall be invested in obligations permitted under paragraphs (b), (c), (e), (g), (h), or (k) of Section 67-1210, Idaho Code.

The following list is comprised of current legal investments under Section 67-1210, Idaho Code. When possible the State Treasurer will diversify its investments in order to avoid risks to certain financial institutions.

B. Diversification

The current diversification based on total portfolio par value at the time of purchase is as follows and in accordance with what is defined in the Authorized Investments section of the TAN Official Statement:

INVESTMENT INSTRUMENT	MAXIMUM ALLOWED
Treasuries	100%
Money Market Funds* , ***	100%
U.S. Government Sovereign Enterprises ("GSE")	100%
Federal Agricultural Mortgage Corporation (FAMC)**	50%
Federal Farm Credit Bank (FFCB)	100%
Federal Home Loan Bank (FHLB)	100%
Federal Home Loan Mortgage Corporation (FHLMC)	100%
Federal National Mortgage Association (FNMA)	100%
Private Export Funding Corporation (PEFCO)**	25%
Tennessee Valley Authority (TVA)**	25%
Repurchase Agreements***	100%
Collateralized Deposits***	20%
* Not approved for investment in the Redemption account	



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** Maximum weight allowed for FAMC, PEFCO & TVA is a percentage of total par value in GSEs

*** See special considerations on certain investments

C. Maturity Schedule

Approved investments for the Proceeds and Redemption cannot exceed a maximum maturity beyond June 30th of the fiscal year that the Tax Anticipation Note is issued for. TAN proceeds are to be used to cover the General Fund cash flow deficits throughout the year. As such they should be managed with the liquidity to cover the General Fund cash flow deficits as projected in the "Projected General Fund Cash Flow for the Fiscal Year" Table which is included in the TAN Official Statement annually.

D. Realized Gains and Losses Policy

The Treasurer's Office shall follow the separate realized gains and losses policy in Appendix A.

SPECIAL CONSIDERATIONS ON CERTAIN INVESTMENTS

A. Guidelines for Collateralized Deposits

Collateralized deposits placed with Idaho financial institutions will not exceed 5% of the financial institutions total deposits or \$50,000,000.00, whichever is less, unless approved by the Chief of Staff and/or the State Treasurer.

Collateralized deposits placed with Credit Unions cannot exceed NCUA insurance limits and deposits with State or Federal Savings and Loan associations cannot exceed FDIC insurance limits.

B. Repurchase Agreements

The State Treasurer's current policy is to conduct repurchase agreement (repo) transactions with dealers, brokers and local financial institutions. Per Idaho Code the State Treasurer is only allowed to enter into delivery versus payment repo. Before a bid on a repurchase agreement is considered, the "Master Repurchase Agreement" must be signed by the dealer, broker, bank, credit union, or savings and loan issuing the instrument as well as the State Treasurer. Allowable collateral for the seller's margin account will be securities of the United States Government and/or senior debt of a GSE with stated final maturities of 5 years or less. The seller's margin account will equal 102% of the repurchase price.

If the seller's margin amount decreases below the required haircut, additional securities will be obtained to meet the requirement.



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Substitutions of securities used as collateral for repurchase agreements will be allowed only when agreed upon by the State Treasurer's Office ("STO"), provided the seller pays the buyer's cost associated with such a transaction at the time of the trade. The counterparty must inform the STO at least twenty-four (24) hours prior to the substitution. No exceptions will be permitted.

C. Money Market Funds

Money market funds consisting of U.S. Government Agency and/or U.S. Treasury securities or repurchase agreements collateralized by U.S. Government Agency and/or U.S. Treasury securities whose reported principal valuations are not subject to market fluctuations will only be permitted.

COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

For the purchase of securities, the Treasurer's Office shall determine the most prudent investment considering the investment's safety, liquidity, and yield. For example, the bid giving the highest yield after conducting an analysis will be accepted if the safety and liquidity are judged to be equal. This shall apply to the investment instrument as well as financial institution.

A competitive bid process will be required prior to the divestiture of any security in the portfolio. The Treasurer's Office will strive to achieve the best execution given the investment type, characteristics, issuer, and market conditions.

SELECTION OF BANKS AND BROKERS/DEALERS

It is the policy of the State Treasurer's Office to perform due diligence on all brokers and dealers during a three month trial period before being placed on the approval list (See Appendix B). Criteria for selection will include registration as a dealer or broker with the Department of Finance. Criteria for selection of banks will include registration with the Department of Finance and designation of the bank as a public depository institution as regulated by Idaho Code, Section 67-2739. On the date of or before the holding of state deposits, the Banking Corporation or the National Banking Association must file an affidavit (a legal document of trust) with the State Treasurer. This affidavit must be from one of the officers of the banking institution. This affidavit is effective for a one year period. After expiration, to continue the holding of state deposits, a new affidavit must be completed. The Treasurer's Office will invest with those financial institutions that meet the above criteria.

SAFEKEEPING

All investments in the Proceeds account shall be held under current contract in safekeeping by Northern Trust, in the name of the Idaho State Treasurer's Office, or in the State Treasurer's vault. All investments in the Redemption account shall be held at the escrow/paying agent, currently BNY Mellon, in the name of the Idaho State Treasurer's Office.



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BOOK OF RECORD

The State Treasurer's Office uses TATRS (internal proprietary software) as the book of record. A monthly reconciliation will be performed between TATRS and the custodian to ensure that all securities are accounted for. Effective as of July 1st, 2011.

APPROVAL OF INVESTMENT POLICY

The investment policy shall be approved annually by the State Treasurer.

EXCEPTIONS

Any exceptions to the Investment Policy will be submitted in writing for approval by the State Treasurer and/or Chief of Staff.

EVALUATION

The State Treasurer reserves the right to amend any of the previous internal guidelines.

Approved by:

Handwritten signature of Ron G. Crane in black ink.

Date: 06-03-2016

Revised 5-31-16 and subject to further revision upon review by the Treasurer's Investment Advisory Board.



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Appendix A

Realized Gains and Losses Policy

A. Non-Impaired Investments

Realized gains and losses will be accounted for during the month of recognition and will be included in the regular monthly interest distribution for non-impaired investment trades transacted due to the daily management of the Proceeds and Redemption. Unrealized gains and losses will not be accounted for until recognized.

The following will be followed for realized gains and losses on non-impaired investments:

1. Realized losses will be netted against realized gains
2. If there are not enough realized gains to offset the losses, then the net loss will reduce the amount earned by the General Fund

B. Impaired Investments

An evaluation will be documented by internal staff to determine if an investment is impaired. The evaluation will provide the following details:

1. If the investment is anticipated to continue to receive principal and/or interest payments
2. When it is estimated that the losses will be recognized
3. What the anticipated realized loss is on the investment
4. Recommended plan with options to offset losses and liquidate impaired assets

If the investment is deemed to continue to receive interest payments, they will be placed in a loss reserve account to offset future recognized losses on the impaired asset.



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Appendix B

Broker/Dealer Due Diligence Policy:

It will be at the discretion of the Treasurer's Office in regards to which broker/dealers are given consideration. We will strive to have relationships with multiple approved brokers and dealers to ensure that we receive the best trade execution and coverage. Brokers and dealers will be placed on a trial period before being placed on the approved list. The approved list will be maintained and sent to Treasurer and Chief of Staff quarterly for their review.

1. Items to be reviewed and filed annually:
 - a. Statement of Financial Health, focus report or annual report (form 10K)
 - b. Value delivered by broker/dealer
2. Items reviewed ongoing:
 - a. News on the broker/dealer
 - b. Quality of trade execution and coverage

After the review of the aforementioned items, there will be a decision if the broker/dealer should remain as an approved broker/dealer for use. If it is decided that the broker/dealer should not remain approved for use, the broker/dealer will be notified of the reasons and given a probationary period to correct the reasons. However, if the reasons are not corrected, the relationship will be terminated.