



STATE OF IDAHO

OFFICE OF THE STATE TREASURER

RON G. CRANE STATE TREASURER

Investment Policy

SCOPE

The investment policy applies to the investment activities of the Idaho State Treasurer's Office Pooled Idle Short-Term Fund Investments, Pooled State Agency Investments in the Idle Short-Term Fund, Joint Exercise of Powers Local Government Investment Pool Investments, Investments of the Tax Anticipation Note monies, Idaho Millennium Fund and The State Treasurer's Small Business Loan Program.

OBJECTIVES

All funds will be invested in accordance with [Section 67-1210](#) and [Section 67-1210A](#), 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 investment officer 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 67-1210, 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 & 67-1210A, 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,



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- Procedures to consummate a purchase or sale of a security,
- Written confirmation of investment and wire transfer transactions.

A. Legal Investments

The following list constitutes current legal investments under Section 67-1210, and Section 67-1210A, Idaho Code. Under section 67-2739 of the Idaho Code unsecured investments are permitted. The State will diversify its investments in order to avoid risks in specific instruments, individual financial institutions or maturities.

B. Diversification

The current diversification is as follows:

INVESTMENT INSTRUMENT	MAXIMUM ALLOWED
Treasuries	100%
Money Market Funds	100%
Corporate Bonds	25%
U.S. Government Agency Securities *	100%
Federal Agricultural Mortgage Corporation (FAMC)	50%
Federal Farm Credit Bank (FFCB)	50%
Federal Home Loan Bank (FHLB)	50%
Federal Home Loan Mortgage Corporation (FHLMC)	50%
Federal National Mortgage Association (FNMA)	50%
Private Export Funding Corporation (PEFCO)	50%
Tennessee Valley Authority	50%
Government Guaranteed Small Business Association Loan	15%
Idaho State Obligations (general obligations of this state)	100%



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Other Obligations (revenue bonds of any county, city, or any taxing district of the State of Idaho)	100%
Repurchase Agreements	100%
Tax Anticipation Notes (registered warrants of the State and TAN of other tax-supported entities)	100%
Deposits in Idaho State Depositories	20% **
Banker's Acceptances	15%
Commercial Paper	25%
Securities Lending***	100%
Covered Call Writing	10%
* No I.O.'s or P.O.'s	
** No institution shall exceed 50% of its core capital and surplus. Credit Union Certificates of Deposit cannot legally exceed National Credit Union Insurance limits.	
***See Special Considerations Section D	

C. Guidelines for Deposits with Financial Institutions

Unsecured deposits in excess of \$10,000,000.00 with any one Idaho financial institution will be approved by the Chief of Staff and/or State Treasurer. The following grid is designed to provide guidelines for allocating unsecured deposits to Idaho financial institutions. The Fed FIS rating service used in the first column provides a completely independent, unbiased rating of an institution's overall financial safety. The second column shows the maximum dollar amounts allowable for an institution based on the individual institution's overall Fed FIS rating, not to exceed 5% of the institution's total deposits. For institutions that have a Fed FIS rating of 3.70 or higher, a further review of the institution's key ratios will be required, including but not limited to their adjusted Texas ratio (<30), Tier 1 Capital ratio (>3%), non-performing loan ratio (improving), and loan to deposit ratio (<80%).



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<i>FED FIS Rating</i>	<i>Maximum Deposit Allowed</i>
1.94-0.00	\$10,000,000
2.79-1.95	\$5,000,000
3.29 - 2.80	\$1,000,000
3.69 – 3.30	\$500,000
5.0-3.70	FDIC Insurance Limit

The benchmark rate to be used for the Bid Idaho Certificate of Deposit program will be the six month London Interbank Offered Rate (LIBOR) from Bloomberg on the date of the scheduled auction.

Secured 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.

D. Maturity Schedule

Investment maturities for operating funds (short term funds) will be scheduled to coincide with cash flow needs, taking into account routine expenditures as well as anticipated revenue. Money not needed for cash flow will not exceed a maximum maturity of five years on approved investments, with the exception of SBA Loans, which have a maximum maturity of 25 years.

Idle monies not needed for short term cash flows may be invested with the Idle Diversified Bond Fund (reference separate Investment Guidelines for Idle Diversified Bond Fund). Monies placed in the Idle Diversified Bond Fund are invested with a longer investment horizon.

E. Performance Evaluation

The investment portfolio will be managed in accordance with the parameters specified within this policy. Each investment portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. The rolling average (using month end rates) of the Six-Month Treasury Constant Maturity Rate shall be the benchmark against which the Idle Investment portfolio performance shall be compared on a regular basis. The rolling average (using month end rates) of the 90-day Treasury Constant Maturity Rate shall be the benchmark against which the Local Government Investment Pool portfolio performance shall be compared on a regular basis.



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F. Reporting

The Investment Officer shall prepare an investment report annually that will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with GASB requirements).
- Average weighted yield to maturity of portfolio on State's investments as compared to applicable benchmarks.
- Listing of investments by maturity date.
- Percentage of total portfolio that each type of investment represents.

The Investment Officer will prepare and submit monthly reports to the State Treasurer and the Chief of Staff that will include monthly performance to benchmark, current credit mix, maturity distribution and compliance to Idaho Code and Investment Policy.

Additionally, the Investment Officer will prepare and submit quarterly to the Chief of Staff and the State Treasurer, an investment report that summarizes recent market conditions, economic developments and anticipated investment conditions. The report shall summarize the investment strategies employed in the most recent quarter and shall provide recommendations for the next quarter.

G. Realized Gains and Losses Policy

The Investment Officer shall follow the separate realized gains and losses policy in Appendix A.

SPECIAL CONSIDERATIONS ON CERTAIN INVESTMENTS

A. Corporate Bonds/Notes

1. Securities must be rated A3, A-, or A-", or better by two or more Nationally Recognized Statistical Rating Organizations (NRSRO) (i.e. Moody's Investor Services or Standard and Poor's Inc.) at the time of purchase.
2. Diversification: To reduce overall portfolio risks.
 - a. Limiting investments to avoid over-concentration in securities from a specific sector.
 - b. Each issuer may not exceed 1.5% of the respective investment portfolio.
3. Floating rate securities:
 - a. Must be tied to a current, liquid market index such as a CMT index, Libor, Treasury Bills, Fed Funds, etc.
 - b. May not have a cap on the coupon.
 - c. The maximum period of coupon adjustment will be quarterly.
4. The corporate entity must be organized, controlled, and operating within the United States.



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B. Commercial Paper

Idaho code 67-1210A specifies that only investment grade commercial paper can be purchased. Each commercial paper issuer may not exceed 5% of the respective investment portfolio (the 5% is in aggregate with an issuer's corporate bonds/notes). All commercial paper purchased must be registered and be rated P-1, A-1, or F1 or its equivalent or better by two or more NRSROs at the time of purchase. There will be no exceptions to these rules.

C. 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 (DVP) 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 Government Sponsored Enterprise (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.

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.

No repo's greater than one year in maturity will be entered into with a counterparty that has a long term debt rating below A3/A-/A-. No repo's less than one year in maturity will be entered into with counterparty with a short term debt rating below P-2/A-2/F2 from one of the public rating agencies.

D. Securities Lending

Requirement: Per Idaho Code 67-1210B, no lending program will be initiated with securities from the Local Government Investment Pool. Securities lending is allowed to continue with securities from IDLE, Tax Anticipation Note, and Idaho Millennium Fund until an orderly program to terminate securities lending is conducted.

Securities lending counterparties must have a Standard & Poor's or Moody's Investor Services credit rating equal to or better than "AA" for long-term debt or "A-1" for short-term debt.



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E. Option Contracts

Provision: The sale and repurchase of call options is permitted only on securities owned by the State Treasurer.

F. Money Market Funds

Money market funds whose investments conform to restrictions outlined in the Idaho Code and whose principal valuations are not subject to market fluctuations.

G. Municipal Securities

General obligation or revenue bonds of the State of Idaho, any county, city, metropolitan water district, municipal utility district, school district, institutions of higher education or other taxing district of this state.

COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

For the purchase of securities, the Investment Officer or staff 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 Investment Officer or staff will strive to achieve the best execution given the investment type, characteristics, issuer, and market conditions.

SELECTION OF BANKS, BROKERS AND 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 Investment Officer will invest with those financial institutions that meet the above criteria.



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SEPARATE INVESTMENTS FOR STATE AGENCIES

Separate investments may be purchased for State Agencies that can show a legal contract or grant requirement for having their funds invested separately from the IDLE fund. The minimum investment purchase is \$1,000,000. The minimum maturity of these separate investments is three months. All investment purchases must adhere to the same investment policies as the State's Idle Pooled Fund. Agencies, which have separate investment balances as of the date of this revised Investment Policy, will be exempt from the minimum investment rule.

SAFEKEEPING

All investments 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.

BOOK OF RECORD

The State Treasurer's Office uses TATRS (internal proprietary software) as the book of record. All monthly distributions will be calculated from the figures provided by TATRS and double checked against third party information. 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 by the Investment Officer 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.

Revised 5/19/15



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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 IDLE, LGIP, DBF, DBF-IDLE pools. Securities lending is considered an investment within the IDLE pool. Unrealized gains and losses will not be distributed 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 be netted against the monthly interest distribution "interest"
- 3) If there is not enough interest to offset the net loss then participants with "active" accounts will share the loss based on their average daily balance as a percentage of the average daily balance of the total pool
 - a. Active accounts are defined as an account that maintained a balance during the month when the net loss was recognized

B. Impaired Investments

The following will be followed for losses on impaired assets:

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 and Dealer Due Diligence Policy:

It will be at the discretion of the Investment Officer 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.

- I) Items to be reviewed and filed annually:
 - a. Statement of Financial Health, focus report or annual report (form 10K)
 - b. Ranking (League Tables or equivalent)
- II) Items to reviewed daily:
 - a. News on the broker and dealer
 - b. Quality of trade execution and coverage

After the review of the aforementioned items, there will be a decision if the broker or dealer should remain as an approved broker or dealer for use. If it is decided that the broker should not remain approved for use, the broker 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.