



Ron G. Crane
Idaho State Treasurer

DBF Investment Statement of Understanding

Purpose

The Diversified Bond Fund (DBF) has been created by the Idaho State Treasurer's Office (STO) as an alternative investment to the short term investment funds such as the Local Government Investment Pool (LGIP) and IDLE, for those State Agencies and Public Agencies and Municipalities (Participants) who are able to assume less liquidity and more price volatility for the potential of greater returns over the long run.

Participant Accounts

The DBF is a voluntary investment vehicle for Participants. An agency can request to join the DBF by submitting a completed application. This application must be approved by the agency's governing board and signed by at least one authorized member of the agency's governing board before submission to the STO.

Participation in the DBF is open to all State Agencies, Public Agencies* and Municipalities, including (but not limited to):

- ~Cities, Towns, and Counties
- ~Public Retirement Systems
- ~Local Public Agencies
- ~Regional School Districts
- ~Public Health Districts
- ~Irrigation & Soil Conservation Districts
- ~Water & Sewer Districts

Each application should identify the contact person(s) authorized to request transactions, along with address and phone numbers. Upon receipt of the completed Application, the STO will notify the Participant of the new account particulars, including the account number. It is the Participant's responsibility to notify the Treasurer of changes to the list of authorized persons. Changes will only be accepted if signed by an authorized person. The STO will not knowingly process any request made by a person not listed as an authorized user for that fund. It is the Participant's responsibility to safeguard passwords and other information required to request a transaction. The STO will not be responsible for transactions made using such confidential information.

Investment Objectives

The investment objective of the DBF is to provide a total return consistent with a high quality intermediate-term diversified fixed income portfolio. Investment management emphasis is placed on total return. New participants are required to reinvest income distributions. Based upon historical market performance, it is

* "Public Agencies" are defined in the Idaho Code [Section 67-2327](#)



Ron G. Crane
Idaho State Treasurer

anticipated that returns over extended periods will be greater in the DBF than in shorter maturity alternatives such as the LGIP or IDLE portfolios.

Since the DBF is invested with an intermediate term weighted average maturity and since proportionate ownership in the fund is based on market value, participants can expect the value of their investment in the fund to fluctuate over time. Participating agencies should therefore only invest monies that they consider longer-term in nature (such as 3.5 years or longer).

The investment manager will achieve the investment objectives through active management of the portfolio with the objective to meet or exceed the Barclay's Capital Intermediate Aggregate A+ Fixed Income Index.

Securities in this Fund are share positions valued at current market values. Due to interest rate changes and market movements, it is possible to lose money by investing in the Fund.

Allowable Investments

Only those securities allowed under Idaho Code Section 67-1210 and Section 67-1210A are permitted for investment.

Authority of the Investment Advisor

Subject to the terms and conditions of the Diversified Bond Fund Investment Policy and of this Statement of Understanding, the Investment Manager shall have the full discretionary power to direct the investment, exchange, liquidation and reinvestment of assets under its management. The Treasurer's Office expects that the Investment Manager will recommend changes to the specific conditions of the Investment Policy and Statement of Understanding at any time.

Please refer to the Diversified Bond Fund home page for Idaho Code definitions.

Custodial Banks

The Bank of New York Mellon has been chosen as the Idaho State Treasurer's safekeeping agent for the current contract. All investment transactions are executed by The Bank of New York Mellon per written instructions. Key Bank is active in security lending on behalf of the DBF. All lendable investments are subject to a negotiated contract with stringent regulations protecting the DBF investments.

Interest and Yields

State Agencies & Municipalities: The DBF distributes and/or reinvests **all** interest received during any given month effective on the first day of the following month, to the individual DBF account.



Ron G. Crane
Idaho State Treasurer

Administrative Fee

The Administrator of the DBF shall charge a service fee. Historically, the Administrative Fee has been between 21-25 basis points. Currently, the fee is 23.6 basis points (.236%) which is the approximate cost to operate the DBF fund; this fee will be deducted from the income earned.

Audit Confirmations

All audit confirmations from agency auditors should be directed to:

Idaho State Treasurer, Ron G. Crane
Investment Division
P. O. Box 83720
Boise, Idaho 83720-0091

The agency name, fund number(s), and amounts to be confirmed should be listed on the confirmation. It is the policy of the STO to confirm only the balance in the account, the current earnings accrued, and the current distribution yield.

Statements

A monthly Statement of Account for each fund and an Investment Portfolio Summary report shall be provided by the State Treasurer's Office, mailed out on approximately the 15th day of each month for the previous month.

The Statement of Account shows any contributions into and withdrawals out of the account, any interest reinvested into the fund on the first day of the month, gains and/or losses due to withdrawals, and account summary information. The agency is responsible for reviewing the Statement for accuracy. If the agency has any questions, the Fund Administrator should be contacted immediately.

The Investment Portfolio Summary report shows the types and amounts of each investment category owned by the DBF.

Procedures for Withdrawals from the DBF

The agency shall submit requests via the Ebank website, mail, e-mail or by telephone at (208) 332-2980 or (800) 448-5447. Withdrawal of amounts of 10 million dollars or more, or the closing of a Fund account valued at 10 million dollars or more requires a minimum notice of 25 days prior to the last day of the month. Withdrawals of less than 10 million dollars or the closing of a Fund account valued at less than 10 million dollars must be received five (5) business days prior to the last day of the month. Requests failing to meet these deadlines will be processed for the next month.

State Agencies – Process a “J” batch for principal only and deliver this “J” batch to the STO by 10:00 a.m. on the day of the withdrawal. The “J” batch should use a transaction code 204 for the principal and a transaction code 101 for gains. For losses, an “I” batch will need to be created with a transaction code of 101R. These



Ron G. Crane
Idaho State Treasurer

funds will be deposited into IDLE. The DBF Administrator will supply you with these dollar amounts the morning of the withdrawal.

Municipalities – The STO will process the forms needed for the withdrawal and deposit all net funds into your designated LGIP account.

All transactions will occur on the last business day of the month.

Procedures for Contributions into the DBF

The agency shall submit requests via Ebank website, mail, e-mail or by telephone at (208) 332-2980 or (800) 448-5447 and provide the following information:

State Agencies:

- ~Supply amount of contribution
- ~Process a “K” batch as a purchase of an investment using TC 200 for the deposit amount
- ~

Municipalities – should supply:

- ~ DBF account number for deposit
- ~ LGIP Fund number amount should be transferred from
- ~ Amount to be transferred

All transactions will occur on the last business day of the month.

Revised 07/01/11