



OFFICE OF THE IDAHO STATE TREASURER

JULIE A. ELLSWORTH, STATE TREASURER

IDLE Investment Policy

SCOPE

The investment policy applies to the investment activities of the Idaho State Treasurer's Office (STO) IDLE Investments.

OBJECTIVES

All funds will be invested in accordance with Section 67-1210 and Section 67-1210A, Idaho Code. The primary objectives of investment activities will be taken into account when the STO makes the decision to invest in the following order of priority:

- **Safety**
Preservation 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 concurrently with cash needs to meet anticipated demands. The portfolio should consist largely of securities with active secondary or resale markets to be able to meet unexpected withdrawals.
- **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 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.

STATUTORY AUTHORITY

According to Section 67-1210, Idaho Code, the STO is a custodian of the public confidence and is ultimately responsible for conducting investment transactions.





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STATE TREASURER'S INVESTMENT ADVISORY BOARD

Under Section 67-1203, a State Treasurer's Investment Advisory Board (TIAB) was established and its members and qualifications defined. Sections 67-1203A & 67-1203B further define the operational structure of the TIAB as well as the scope of their duties. The primary duties of the TIAB are to evaluate and recommend the types and kinds of investments the STO or an investment manager would utilize to manage idle funds and such other funds the STO is authorized to invest pursuant to Sections 67-1210 and 67-1210A, Idaho Code, as well as review and recommend investment policies relating to these funds.

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. Officers and employees 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. Officers and employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the entity.

INTERNAL CONTROL

The STO 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.





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Accordingly, the STO 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.

A. Legal Investments

The following list is comprised of legal investments under Section 67-1210, and Section 67-1210A, Idaho Code. The STO will diversify its investments in order to avoid risks in specific instruments, individual financial institutions or maturities.

The maximum allowed in legal investments is based on total portfolio par value at the time of purchase:

INVESTMENT INSTRUMENT	MAXIMUM ALLOWED
Treasuries*	100%
Money Market Funds**	100%
Corporate Bonds**	25%
U.S. Government Sponsored Enterprises (“GSE”)*	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 (TVA)	50%
Government Guaranteed Small Business Association Loan	5%

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Idaho State Obligations (general obligations of this state)**	10%
Other Obligations (revenue bonds of any county, city, or any taxing district of the State of Idaho)**	10%
Repurchase Agreements**	100%
Mortgage Backed Securities**	10%
Agency Commercial Mortgage Backed Securities**	5%
Asset Backed Securities**	20%
Tax Anticipation Notes (registered warrants of the State and TAN of other tax-supported entities)	10%
Deposits in Idaho State Depositories**	15%
Commercial Paper**	25%
* No interest or principal only securities (excluding treasury bills, discount notes, and commercial paper)	
**See Special Considerations section	

B. 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. Investments will not exceed a maximum maturity of 10 years on approved investments, with the exception of SBA Loans, mortgage backed securities and commercial mortgage backed securities which have up to a maximum maturity of 30 years.

IDLE funds not needed for short-term cash flows within one year may be invested in the intermediate portion of the portfolio and will not exceed 30% of the total par value of the portfolio at the time of purchase. IDLE funds invested with a longer investment horizon are for the purpose of improving returns over extended periods.

The IDLE portfolio's effective duration will be within 50% to 150% of the target effective duration of 2 years at the time of purchase.

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C. Performance Evaluation

The investment portfolio will be managed in accordance with the parameters specified within this policy and should obtain a market average rate of return during a market/economic environment of stable interest rates. The IDLE Investment portfolio performance will be benchmarked against a blended Index made up of 80% Bank of America Merrill Lynch 0-1 year U.S. Treasury (G0QA Index) and 20% Bank of America Merrill Lynch U.S. Corporate & Government 1-10 years A rated and above (B510 Index). The performance will be measured on a total return basis, quarterly at a minimum.

1. The “A” represents ratings considered upper-medium grade in credit quality by one nationally recognized rating agency to comply with Idaho Code Section 67-1210A.

D. Reporting

The STO shall prepare and/or work with an outside Advisor/Consultant to prepare an investment report quarterly at a minimum and post on the Treasurer’s website. It will include performance, credit quality distribution, maturity distribution, ratings distribution, sector distribution, portfolio metrics and a compliance check to policy.

E. 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 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. This rating is checked semi-annually at a minimum. 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>
<i>1.94-0.00</i>	<i>\$10,000,000</i>
<i>2.79-1.95</i>	<i>\$5,000,000</i>
<i>3.29 - 2.80</i>	<i>\$1,000,000</i>
<i>3.69 – 3.30</i>	<i>\$500,000</i>
<i>5.0-3.70</i>	<i>FDIC Insurance Limit</i>

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.

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. 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 at the time of purchase.
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, domiciled, and operating within the United States.

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C. Commercial Paper

Idaho code 67-1210A specifies that only investment grade commercial paper can be purchased. At the time of purchase, 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.

D. Repurchase Agreements

The STO's current policy is to conduct repurchase agreement ("repo") transactions with dealers, brokers and local financial institutions. Per Idaho Code, the STO 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. Substitutions of securities used as collateral for repurchase agreements will be allowed only when agreed upon by the STO and 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.

E. Mortgage Backed Securities

Mortgage backed securities and/or collateralized mortgage obligations ("CMO") comprised of loans sponsored by government agencies and/or quasi-government agencies (i.e. FNMA, FHLMC, GNMA etc.);

1. They are not to exceed 10% of total portfolio par value using current face and a combined maximum weighted average life of 6 years at the time of purchase.
2. CMOs will be limited to planned amortization and/or targeted amortization class tranches.

F. Commercial Mortgage Backed Securities

Commercial mortgage backed securities must be issued and guaranteed by FNMA and/or FHLMC.

1. They are not to exceed 5% of total portfolio par value using current face and a combined maximum average life of 5 years at the time of purchase.





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G. Asset Backed Securities

Asset backed securities (ABS) must be rated AAA by a NRSRO at the time of purchase.

1. They are not to exceed 20% of total portfolio par value using current face and a combined maximum average life of 3 years at the time of purchase.

H. 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.

I. 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 STO 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 of reaching out to a minimum of three broker/dealers will be required prior to the sale of any security in the portfolio. The STO 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 STO to perform due diligence on all brokers and dealers 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 STO 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 STO uses TATRS (internal proprietary software) as the book of record. All monthly distributions will be calculated from the figures provided by TATRS and reconciled 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 1, 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:

Date: 07/25/19

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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 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

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 STO in regards to which broker/dealers are given consideration. We will strive to have relationships with multiple approved brokers/dealers to ensure that we receive the best trade execution and coverage. The approved list will be sent to Treasurer and Chief of Staff for their review as changes are made. Effective July 1, 2017.

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.

