



Ron G. Crane  
Idaho State Treasurer

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## 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 any 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

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



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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 U.S. Intermediate Aggregate xBaa Fixed Income Index.

- The xBaa pertains to corporate securities that are rated at least "A" or better by one nationally recognized rating agency per Idaho Code Section 67-1210a.
  - The "A" represents ratings considered upper-medium grade in credit quality by rating agencies.

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.**

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### **Custodial Banks**

Northern Trust has been chosen as the Idaho State Treasurer's safekeeping agent for the current contract. All investment transactions are executed by Northern Trust per communicated instructions.

### **Interest and Yields**

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



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### **Administrative Fee**

The Administrator of the DBF shall charge a service fee; which currently is 5.7 basis points (.057%) 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 and available on eBank on or about 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 funds will be deposited into IDLE. The DBF Administrator will supply you with these dollar amounts the morning of the withdrawal.



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

The State Treasurer’s Office may determine, in its sole discretion that a Participant’s frequent withdrawals indicate the funds are being invested outside the objectives of the fund. Upon such a determination, the State Treasurer’s Office reserves the right to liquidate a Participant’s investment within the DBF and return the proceeds to the Participant.

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: 10/01/2015*