



## **Investment Policy**

**As adopted August 21, 1996 and revised June 16, 2008 and April 17, 2009.**

### **A. Background**

The Treasurer's Short-Term Investment Fund (STIF) is an investment pool of high-quality, short-term money market instruments for state and local governments. Operating since 1972 in a manner similar to a money market mutual fund, STIF's purpose is to provide a safe, liquid and effective investment vehicle for the operating cash of the State Treasury, state agencies and authorities, municipalities, and other political subdivisions of the state.

All State, local and political subdivisions of the State are authorized to invest in STIF by (CGS) 3-27a and 3-27b.

### **B. Purpose**

The purpose of this document is to specify the policies and guidelines that provide for the systematic management of STIF and the prudent and productive investment of funds.

### **C. Investment Objectives**

STIF seeks as high a level of current income as is consistent with, first, the safety of principal invested by the State, municipalities and others, and, second, the provision of liquidity to meet participants' daily cash flow requirements.

### **D. Safety of Principal**

Safety of principal, STIF's primary objective, shall be pursued in a number of ways.

1. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by protecting against credit risks (from security defaults) and the erosion of market prices (from rising interest rates).
2. The Fund's investments shall be made in conformance with prudent guidelines for allowable instruments, credit quality and maturities (See Section H)
3. STIF shall maintain adequate diversification of instruments, issuers, industries and maturities to protect against significant losses from credit risks and market changes. (See Section H).
4. All securities shall be held by a third-party custodian.
5. All transactions shall be handled on the basis of delivery vs. payment to a custodian bank.
6. All repurchase agreements shall be fully collateralized, with a custodian bank receiving delivery of the collateral.
7. Reverse repurchase agreements may be used only to meet temporary liquidity requirements of the Fund and may not exceed five percent of total Fund assets (See Section H).
8. STIF shall maintain a designated surplus reserve to provide an added layer of security. For the period June through November 1996 a pro-rated allocation to the reserve will be paid from investment returns that will equal, on an annualized basis, one-tenth of one percent of the fund's total investments until the reserve equals one percent of investments.



Effective December 1, 1996, daily allocations to the designated surplus reserve will be paid from investment returns and will equal, on an annualized basis, one-tenth of one percent of the fund's investments until the reserve equals one percent of investments. If net losses significant to the aggregate portfolio are realized, they shall be charged against the designated surplus reserve, as discussed in Section Q. This reserve has been drawn once in STIF's history in June 30, 2008.

While STIF — which consists predominantly of funds for which the Treasurer is sole trustees managed diligently to protect against losses from credit and market changes, and though deposits are backed by high-quality and highly-liquid short-term securities, the Fund is not insured or guaranteed by any government and the maintenance of capital cannot be fully assured.

### **E. Liquidity**

The portfolio shall be structured through sufficient investments in overnight and highly-marketable securities to allow complete liquidity for participants. In addition, reverse repurchase agreements totaling up to five percent of Fund assets may be used to meet temporary liquidity requirements.

Participants have full and quick access to all of their funds. Participants may make same-day (up to 10:30 a.m.) deposits and withdrawals of any size. Withdrawals generally are sent via Fed wire, thus funds are available for use on the day of withdrawal.

In addition, deposits and withdrawals may be made through the ACH system on a next-day basis, deposits may be made by check through the mail, and withdrawals may be made by check. No transaction fees are charged on deposits or withdrawals by wire or ACH. Withdrawals by check are charged a fee, as specified in the participant manual.

### **F. Yield**

STIF's investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the liquidity requirements of the Fund.

The portfolio shall be managed with the objective of exceeding the average of three-month U.S. Treasury Bill rates for the equivalent period. This index is considered a benchmark for near-riskless investment transactions and, therefore, comprises a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with stated risk limitations and prudent investment principles.

While STIF shall not make investments for the purpose of trading or speculating as the dominant criterion, STIF shall seek to enhance total portfolio return through active portfolio management. The prohibition on speculative investments precludes pursuit of gain or profit through unusual risk. Trading in response to changes in market value or market direction, however, is warranted under active portfolio management.

### **G. Prudence**

Investments shall be made with the care, skill, prudence, and diligence — under circumstances then prevailing — that prudent persons acting in like capacities and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, not for speculation, but for investment, considering the probable safety of their capital as well



As the probable income to be derived.

The standard of prudence to be used by STIF's investment officials shall be the "prudent expert" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion in writing and appropriate action is taken to control adverse developments.

#### **H. Investment Guidelines**

All investments must be made in instruments authorized by CGS 3-27c - 3-27e. In addition, the Treasurer has adopted the investment guidelines that follow. Unless otherwise indicated, references to credit ratings are to those of Standard & Poor's.

1. STIF may invest in the following securities:
  - a. Instruments issued, guaranteed or insured by the U.S. government or federal agencies.
  - b. Certificates of deposit of commercial banks in the United States whose short-term debt is rated at least A-1 and TBW-1 (by Thomson Bank Watch) and whose long-term debt is rated at least A- and C (by Thomson Bank Watch).
  - c. Certificates of deposit of U.S. branches of foreign banks with short-term debt ratings of at least A-1 and TBW-1 and long-term debt ratings of at least A and B/C (by Thomson Bank Watch).
  - d. Bankers' acceptances of those banks meeting the criteria in b. and c. above.
  - e. Fully-collateralized repurchase agreements with primary dealers of the Federal Reserve with short-term debt ratings of at least A-1, or qualified domestic commercial banks meeting the criteria in b. above, with possession of collateral by a custodian bank.
  - f. Commercial paper of companies that have short-term debt rated at least A-1 and P-1 (by Moody's) and long-term debt rated at least AA- and Aa3 (by Moody's).
  - g. Corporate or asset-backed securities rated at least A-1/P-1 and AA-/Aa3.
  - h. Asset-backed securities with maturities of under one year rated at least A-1/P-1.
  - i. Money market mutual funds or similar investment pools, comprised of securities permitted under this investment policy and managed to maintain a constant share value, rated AAAm.
  - j. A line of credit of up to \$100 million with the Connecticut Student Loan Foundation. Any resulting loans shall be fully collateralized (at 102 percent) by student loans with interest and principal 98 percent federally guaranteed.
  - k. The portfolio currently includes securities issued by the State of Israel, which mature in less than six years, and which, in the aggregate, total less than .5 percent of the portfolio value. These notes' interest rates are reset semi-annually at the prime rate minus 50 basis points. These securities, as currently structured, will not be purchased in the future.
  - l. Notwithstanding the approved investments enumerated above, STIF may hold securities or other assets received as a result of a restructuring of securities that were, when originally purchased, among the list of approved investments set forth herein, following consultation with an outside investment advisor. The Treasurer will notify investors of such situations within two (2) business days of the receipt of such securities or assets.



2. Reverse repurchase agreements, in the aggregate, may not exceed five percent of net assets at the time of execution. While any reverse repurchase agreement is outstanding, new investments must match the maturity of the shortest-term outstanding reverse repurchase agreement. Reverse repurchase agreements are to be used only to meet temporary liquidity requirements of the Fund.
3. No investments may be made in "derivative" securities such as futures, swaps, options, interest-only and principal-only mortgage-backed securities, inverse floaters, CMT floaters, leveraged floaters, dual index floaters, COFI floaters, and range floaters. These types of securities can experience high price volatility with changing market conditions, and their market values may not return to par even at the time of an interest rate adjustment.

Investments may be made in adjustable rate securities whose interest rates move in the same direction and in the same amount as standard short-term money market interest rate benchmarks, such as Fed Funds, LIBOR, Treasury bills, one-month CDs, one-month commercial paper and the prime rate, and conform with STIF's other credit and maturity standards. Interest rate reset periods may not exceed six months. The values of these securities tend to return to par upon the scheduled adjustment of interest rates. Some parties in the financial services industry consider these types of adjustable rate securities to be derivatives, others do not.

U.S. Treasury Separate Trading of Registered Interest and Principal Securities ("STRIPS") are not considered derivatives and may be purchased. These instruments are subject to the same interest rate risks as U.S. Treasury securities of the same duration. STRIPS are fundamentally different from mortgage-backed and other interest-only or principal-only securities that are subject to unscheduled prepayments of principal.

4. All investments must be made in U.S. dollar-denominated securities.
5. The dollar-weighted average portfolio maturity (including interest rate reset periods) may not exceed 90 days. Individual maturities may not exceed five years.
6. STIF shall diversify its investments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, industry segments, individual issuers or maturities. Diversification strategies shall include:
  - a. At the time of purchase, no more than five percent of the overall portfolio may be invested in an individual security, other than overnight or two-business-day repurchase agreements and U.S. government and agency securities.
  - b. At the time of purchase, no more than 10 percent of the overall portfolio may be invested in securities of a single bank or corporation, other than overnight or two-business-day repurchase agreements and U.S. government and agency securities.
  - c. There is no limitation on the percentage of assets that may be invested in securities of the United States government, its agencies or instrumentalities, or in overnight or two-business-day repurchase agreements.
  - d. At the time of purchase, no more than 25 percent of the overall portfolio may be invested in any industry other than the financial services industry.
  - e. At the time of purchase, no more than 50 percent of the overall portfolio may be invested in the combined total of commercial paper and non-asset-backed corporate notes.
  - f. At the time of purchase, no more than 20 percent of the overall portfolio may be invested in floating rate securities with final maturities in excess of two years.
  - g. At the time of purchase, no more than five percent of the overall portfolio may be invested in an individual money market mutual fund or similar investment pool.
  - h. At the time of purchase, no more than 10 percent of the overall portfolio may be invested in money market mutual funds and similar investment pools.



- i. At the time of purchase, investments in securities that are not readily marketable, other than securities that mature within seven days, may not exceed 10 percent of the fund's overall portfolio.
- j. At least 75 percent of the overall portfolio shall be invested in securities rated A-1+ or in overnight repurchase agreements with dealers or banks rated A-1.
7. The Treasurer intends to operate STIF in such a manner as to maintain its AAAM credit rating from Standard & Poor's, or a similar rating from another nationally-recognized credit rating service recognized by the State Banking Commissioner.
8. Investment decisions shall be based on the relative and varying yields and risks of individual securities and the Fund's liquidity requirements.

### **I. Interest Payments**

Until December 1, 1996:

STIF pays interest quarterly based on monthly guaranteed rates that are set on or before the first day of each month by the Treasury based on STIF's portfolio and market conditions. In addition, participants will be paid a bonus distribution — based on actual earnings less guaranteed interest payments, expenses and the payment to the reserve for losses — for the period of June through November. All rates are calculated and quoted on the basis of the actual number of days in a year (an "actual-over-actual" basis).

Effective December 1, 1996:

STIF declares and accrues investor interest daily based on actual STIF earnings (including gains and losses), less expenses and transfers to the designated surplus reserve. Interest is paid monthly through direct distribution or reinvestment. Earned rates are available on a next-day basis. All rates are calculated and quoted on the basis of the actual number of days in a year (an "actual-over-actual" basis) and reported in accordance with guidelines of the Association for Investment Management and Research (AIMR).

### **J. Administrative Costs**

STIF is provided to participants without sales or management fees. Administrative costs are paid from investment earnings, and all STIF participants (including the state and local entities) share in covering the Fund's expenses in proportion to the size of their investments. Costs have run at between two and three basis points (or \$2-3 per \$10,000 invested).

### **K. Delegation of Authority**

The Short-Term Investment Unit within the Treasury's Cash Management Division manages STIF's investments. Deposits, withdrawals, participant record-keeping and the distribution of interest are handled by State Street under the supervision of the STIF Administration Unit within the Treasury's Cash Management Division.

### **L. Daily Confirmation**

Confirmations of daily deposits and withdrawals are sent the day after the transaction.

### **M. Monthly Statements**

Monthly statements of balances, account activity, and paid interest are mailed to participants by the 10th day of each month.





## **N. Reports**

Quarterly and annual reports describing STIF's yields, performance relative to its primary benchmark (IBC First Tier Institutions-Only Rated Money Fund Index), and investments shall be provided to all participants. A detailed portfolio listing, data on 90-day Treasury bills and 90-day certificates of deposit, and commentary on economic conditions shall be provided with each report. The reports are available on the World Wide Web at: <http://www.state.ct.us/ott>.

## **O. Participant Manual**

A manual describing STIF's operating procedures, instructions for opening and closing accounts and making deposits and withdrawals, and methods of distributing interest, is provided to all participants. There currently are no restrictions on the size or number of accounts or transactions.

## **P. Audit**

The Auditors of Public Accounts audit STIF's financial statements and operating procedures annually. Copies of audit opinions and reports will be provided to all participants.

## **Q. Portfolio Valuation**

STIF's values and yields are accounted for on an amortized-cost basis. Market values of all securities, except for those securities listed in Sections H.1.j and H.1.k, above, are calculated on a weekly basis. Significant deviations of market values to amortized costs shall be reported as follows:

1. First Level Notification. If the market value of the overall investment portfolio, based on reports from the custodian, drops below 99.75 percent of the amortized cost value of the overall investment portfolio, or if the ratio of the market value of the overall portfolio to the outstanding participant units drops below 100.50 percent, the Principal Investment Officer would notify the Assistant Treasurer for Cash Management, the Assistant Treasurer for Pension Funds Management, and the Treasurer's Investment Committee at the first weekly meeting following such determination.
2. Second Level Notification. If the market value of the overall investment portfolio, based on reports from the custodian, drops below 99.50 percent of the amortized cost value of the overall investment portfolio, or if the ratio of the market value of the overall portfolio to the outstanding participant units drops below 100.25 percent, the Principal Investment Officer would notify, as soon as practical, the Treasurer, Deputy Treasurer, Assistant Treasurer - Chief of Staff, Assistant Treasurer for Cash Management, Assistant Treasurer for Pension Funds Management, and the Treasurer's Investment Committee. The Treasurer's Investment Committee would then meet in special session to review the circumstances surrounding the fall in one or both ratios, and it would review every security held by the fund. If this second level notification resulted from a significant increase in fund size that resulted in a proportionate decrease in the relative size of the designated surplus reserve, then portfolio or other changes may not be required. If this second level notification resulted from the decline in market values of securities, then the Investment Committee would consider selling securities that had fallen in value and making use of the designated surplus reserve.
3. Investor Notification. If the ratio of the market value of the overall portfolio to the outstanding participant units drops below 99.75 percent, the Treasurer would notify all STIF investors of the situation and the actions being undertaken to protect against further reductions.



#### **R. Internal Controls**

The Treasury shall establish and maintain a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the Auditors of Public Accounts. The controls shall be designed to prevent and control losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers.

#### **S. Cash Management Advisory Board**

STIF's investment practices and performance, including the documentation discussed in Section N, shall be reviewed on a quarterly basis by the Treasurer's Cash Management Advisory Board.

#### **T. Financial Dealers and Institutions**

The STIF Investment Officer shall develop criteria for selecting brokers and dealers. All repurchase agreement transactions will be conducted through primary dealers of the Federal Reserve Bank of New York rated at least A-1 and qualified banks (as defined in Sections H.1.b and H.1.c) which have executed master repurchase agreements with the Treasury.

#### **U. Ethics**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose in writing to the Treasurer, or the Treasurer's compliance officer, any material financial interests in financial institutions that conduct business with STIF, and they shall further disclose any large personal financial/investment positions that could be related to the performance of STIF's portfolio, particularly with regard to the time of purchases and sales.

#### **V. Bond Proceeds**

Bond proceeds may be deposited in STIF. Accounting and arbitrage rebate calculations are the responsibility of participants. STIF's investment program is not designed to restrict yield in order to avoid arbitrage rebates.

#### **W. Conformance with Guidelines**

A nationally-recognized credit rating service recognized by the State Banking Commissioner shall monitor the STIF portfolio on a weekly basis to determine compliance with this policy. The Auditors of Public Accounts review compliance annually.

#### **X. Conformance with National Standards**

These guidelines, together with the participant manual, were designed to meet the July 1995 guidelines of the National Association of State Treasurers for local government investment pools.

#### **Y. Investment Guideline Revisions**

These guidelines may be revised by the Treasurer due to market changes or regulatory, legislative or internal administrative initiatives. Attempts will be made to provide all STIF investors with at least 30 days of notice before any changes to the investment policy become effective.

The Treasurer reserves the right to make changes immediately to respond to market conditions. In such circumstances, revisions will be sent to all STIF investors within two business days of the revision.