

# **Investment Policy Statement**

## **Short-Term Investment Fund**



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## Investment Policy

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### 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 with the exception of bank investments and money market funds, which are settled by Fed wire. In instances where DTC is closed and delivery/settlement still needs to take place, free deliveries are acceptable as long as deliveries occur before payment.
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 equal to one percent of net investable assets (“NIA”) to provide an added layer of security. For any periods where the designated surplus reserve falls below one percent, 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 NIA until the reserve equals one percent of NIA. If net losses significant to the aggregate portfolio are realized, they shall be charged against the designated surplus reserve, as discussed in Section Q. The Treasurer may, however, modify or suspend the transfer to the designated surplus reserve based on market conditions and other fund considerations.

While STIF — which consists predominantly of funds for which the Treasurer is sole trustee — is 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 to ensure complete liquidity for participants through sufficient investments in overnight and highly-marketable securities. In addition, reverse repurchase agreements totaling up to five percent of Fund assets may be used to meet temporary liquidity requirements.

Participants shall have full and timely access to all of their funds. Participants may make same-day (normally 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.

## F. Yield

STIF’s investment portfolio shall be designed to attain a rate of return consistent with similar funds 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 a designated benchmark which reflects an average of funds with similar portfolio objectives and characteristics as well as the average of three-month U.S. Treasury Bill rates for the equivalent period. Treasury Bills are considered a proxy for near-riskless short-term investment yields and, therefore, are used as a basis of comparison between the fund and a risk-free benchmark. 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 including U.S. Treasury Separate Trading of Registered Interest and Principal Securities ("STRIPS").
  - b. Deposit instruments of commercial banks domiciled in the United States whose short-term rating of at least A-1 and whose long-term rating of at least A- or the equivalent by a NRSRO.
  - c. Deposit instruments of U.S. branches of foreign banks with short-term ratings of at least A-1 and long-term ratings of at least A or the equivalent by a NRSRO.
  - d. Deposit instruments of banks with ratings below the criteria established in b. and c. above, but guaranteed by, or backed with, a letter of credit from a US Government sponsored enterprise ("GSE") shall be permissible. The rating of such deposit instruments shall be considered to be at parity with the GSE and recorded as such.
  - e. Fully-collateralized repurchase agreements with counterparties which have short-term ratings of at least A-2 (or equivalent), or qualified commercial banks meeting the criteria in b. above, with possession of collateral by a custodian bank. Fully-collateralized repurchase agreements with counterparties which have short-term ratings of at least A-2 (or equivalent), or qualified 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 ratings of at least A-1 (or an equivalent rating) or, if no short-term rating is available, long-term debt rated at least A (or equivalent).
- g. Corporate securities rated at least A-1/P-1 and A or the equivalent by a NRSRO.
- h. Asset-backed securities (bonds or commercial paper) with final maturities under thirteen months rated at A-1+ (or equivalent) and AAA (or equivalent).
- i. Money market mutual funds or similar investment pools managed to maintain a constant share value, rated AAAm..
- j. Debt instruments of supranational organizations in which the United States of America is a participant rated A1/P1 and/or A+ or the equivalent by a NRSRO.
- k. US dollar denominated issues of Canada and its provinces rated A1/P1 and/or A+ or the equivalent by a NRSRO.
- l. Debt securities of US states and the agencies or authorities backed by such states rated A+/A1 or better.

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, and interest-only or principal-only mortgage-backed securities., inverse floaters, CMT floaters, leveraged floaters, dual index floaters, COFI floaters, and range floaters.

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 including, but not limited to, Fed Funds, SOFR, Treasury bills and the prime rate, and conform with STIF’s other credit and maturity standards. Interest rate reset periods may not exceed six months.

4. All investments must be made in U.S. dollar-denominated securities which are settled versus payment via Fed wire, DTC or Euroclear settlement systems with the exception noted in D.5.

5. The dollar-weighted average portfolio maturity (including interest rate reset periods) may not exceed 90 days. Individual maturities may not exceed five years with the exception of government or government agency securities where the fund has the ability to put the security back to the issuer within 13 months

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 5 percent of the overall portfolio may be invested in securities of a single bank or corporation, other than overnight one to fourteen 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 week repurchase agreements.
- d. At time of purchase, no more than 50% of repurchase agreements will mature beyond 2 business days.
- e. 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.
- f. At the time of purchase, no more than 50 percent of the overall portfolio may be invested in the combined total of corporate securities (notes and commercial paper) and asset-backed securities (notes and commercial paper).
- g. 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.
- h. 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.
- i. At the time of purchase, no more than 15 percent of the overall portfolio may be invested in money market mutual funds and similar investment pools.
- j. 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 with the exception of bank investments.
- k. At least 60 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

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 Chartered Financial Analyst Institute (“CFAI”).

## 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 historically been between one and five basis points (or \$1-5 per \$10,000 invested).

## K. Delegation of Authority

The Short-Term Investment Unit within the Treasury’s Pension Funds Management Unit manages STIF’s investments. Deposits, withdrawals, participant record-keeping and the distribution of interest are handled by the transfer agent under contract with the Treasurer’s office under the supervision of the STIF Administration Unit within the Treasury’s Pension Funds Management Unit.

## L. Daily Confirmations

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

## M. Monthly Statements

Monthly statements of balances, account activity, and paid interest are available to participants on the STIF Express portal (<https://www.your-fundaccount.com/SOC/Login.aspx>) typically by the 5<sup>th</sup> business 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” or the “benchmark”), and investments shall be provided to all participants. A detailed portfolio listing, data on the benchmark, 90-day Treasury bills and commentary on economic conditions shall be provided with each report. The reports are available on the Treasury website at: <https://portal.ct.gov/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 available on the Office of the State Treasurer’s website ([About the Short-Term Investment Fund \(ct.gov\)](https://www.ct.gov/about-the-short-term-investment-fund)). 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 participants upon request.

## 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 Chief Investment Officer, and the STIF Advisory 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 for Cash Management, Chief Investment Officer, and the STIF Advisory Committee. The STIF Advisory Committee would then meet 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 STIF Advisory Committee would discuss 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. STIF Advisory Committee

The STIF Advisory Committee is an internal working group within the Office of the Treasurer, consisting of personnel from the Pension Fund Management, Cash Management, and Debt Management Divisions, as well as other Office of the Treasurer employees as determined by the Treasurer. The STIF Advisory Committee will meet as contemplated in this IPS, and otherwise as needed, to review market conditions, STIF investments, the fund profile and characteristics and performance.



## T. Financial Dealers and Institutions

STIF Investment personnel shall develop criteria for selecting brokers and dealers. All repurchase agreement transactions will be conducted through counterparties (as defined in Sections H.1.b and H.1.f) 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 May 2016 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

## Definitions

**Net Investable Assets (NIA):** Net Investable Assets equals the difference of total assets at amortized cost and the value of the designated surplus reserve.

**NRSRO:** Nationally Recognized Statistical Rating Organization. A nationally recognized statistical rating organization is a credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission permits other financial firms to use for certain regulatory purposes. The SEC's Office of Credit Ratings administers the SEC's rules relating to NRSROs, in addition to performing various other functions with respect to NRSROs.

**Repurchase Agreement:** A repurchase agreement, also known as a repo, RP, or sale and repurchase agreement, is the sale of securities together with an agreement for the seller to buy back the securities at a later date.

**Supranational Organization:** An organization that exists in multiple countries. The organizations are often international government or quasi-government organizations. Examples include the World Bank and the International Monetary Fund.

**Asset-Backed Securities:** An asset-backed security is a security whose income payments and value are derived from and collateralized by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets which are unable to be sold individually. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets.

**DTC:** The Depository Trust & Clearing Corporation is an American post-trade financial services company providing clearing and settlement services to the financial markets. It performs the exchange of securities on behalf of buyers and sellers and functions as a central securities depository by providing central custody of securities.

**Euroclear:** A global provider of Financial Market Infrastructure (FMI) services designed to settle domestic and cross-border securities transactions.