INVESTMENT POLICY
FOR THE POOLED MONEY FUND

APPROVED OCTOBER 11, 2011

OFFICE OF THE TREASURER OF THE STATE OF IOWA

DES MOINES, IOWA

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I. INVESTMENT AUTHORITY

A. Description of the Fund

The Pooled Money Fund, (hereinafter, "the Fund"), is under the direct authority of the Treasurer of State, and contains moneys of State agencies.

B. Applicable Law

1. **Grant of Authority:** Section 12.8 of the Iowa Code requires the Treasurer of State to invest or deposit any of the public funds not currently needed for operating expenses.

2. **Statutorily Permitted Investment and Constraints on Investment:** Chapter 12B of the Iowa Code contains the investment authority for the Treasurer of State. Iowa Code section 12B.10 numbered paragraph (2) states:

   "The treasurer of state, when investing or depositing public funds, shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use to attain the goals of this subsection. This standard requires that when making investment decisions, a public entity shall consider the role that the investment or deposit plays within the portfolio of assets of the public entity and the goals of this subsection. The primary goals of investment prudence shall be based in the following order of priority:

   a. Safety of principal is the first priority.
   b. Maintaining the necessary liquidity to match expected liabilities is the second priority.
   c. Obtaining a reasonable return is the third priority."

   Furthermore, Iowa Code section 12B.10 numbered paragraph (4) specifies the permitted investments for the Treasurer of State. Deposits are governed by Iowa Code chapter 12C. Iowa Code section 12B.5 prohibits the Treasurer of State from making loans.

C. Fund Management and Oversight

1. Responsible Persons:

(a) ***Investment Committee*****:** An Investment Committee (the "Committee") consisting of the Treasurer of State, the Deputy Treasurers, the Compliance Officer, the Chief Investment Officer, and other treasury staff as designated by the Treasurer of State shall meet regularly, but not less frequently than quarterly, to review compliance of the Investment Division with the investment policy, to determine investment strategies and risk and return parameters, to monitor performance, and to discuss investment issues. The Committee may include in its deliberations such topics as economic outlook, portfolio diversification and maturity structure, and potential risks to the Fund's principal or income.

(b) ***Investment Division*****:** The Treasury Investment Division, under the direction of the Chief Investment Officer, shall conduct all investment duties associated with the Fund. Additionally, the Investment Division shall be responsible for keeping the investment policy and ensuring that any revisions approved by the Committee are incorporated into the investment policy. The Compliance Officer and the Investment Division shall record the date of Committee approval for any revisions and the date that such revisions become effective. Copies of the investment policy shall be produced by the Investment Division and provided to the Committee, the Investment Division, the Compliance Officer, the State Auditor, and all depository institutions or fiduciaries for state operating funds.

(c) ***Compliance Officer*****:** The Treasurer shall designate a compliance officer responsible for monitoring the investment division's compliance with the investment policy and the Iowa Code. The Compliance Officer will provide the Committee with timely reports regarding the Investment Division's compliance with the investment policy, and shall immediately report any violations to the Treasurer or a member of the Committee.

2. Reporting and Communications: The Treasury Investment Division or the Compliance Officer shall provide a monthly report to all Committee members that shall include, at a minimum, the following:

(a) ***Monthly Activity***: The report shall disclose all transactions during the prior month. Investments purchased during the month shall be disclosed at cost. The broker/dealer used in each transaction shall be disclosed.

(b) ***Portfolio Description*:** The monthly report shall describe the investment portfolio by security type, issuer, and maturity. The average life, yield to maturity, and duration of the overall portfolio shall be reported. The par value and market value of Fund investments shall be reported. A detailed inventory of all investments of the Fund will be available to Committee members upon request at any time.

(c) ***Market Conditions:*** The report shall summarize recent market conditions and economic developments and may summarize expected market conditions and economic developments.

(d) ***Concerns*:** The report shall highlight any areas of risk or investment concern and any suggested revisions to currently employed investment strategies.

(e) ***Performance***: The report shall include a summary of the yield and total return for the Fund for the month and the yield and total return for the 90 day T-Bill benchmark for the month. The report shall also include a summary of the total return of the Fund and its components over a one-year, three-year, and five-year period.

3. **Policy Review:** This investment policy shall be annually reviewed and approved by the Committee. The Committee shall approve any modifications to the policy.

4. **Ethics and Conflicts of Interest:** Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the Fund investment portfolio, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose to the Treasurer any material interests in financial institutions with which they conduct business. Employees and officers shall refrain from undertaking personal investment transactions with an individual that also sells securities to the Fund.

II. INVESTMENT STANDARDS

A. <u>General Objectives</u>

1. **Safety of Principal:** Safety of principal is the foremost objective of the Fund.

2. **Liquidity:** The investment portfolio will remain sufficiently liquid to enable the State to meet all operating requirements that are reasonably anticipated.

3. **Income:** The investment portfolio shall be invested with the goal of prudently earning the highest amount of income that can be achieved while preserving investment principal and ensuring that sufficient liquidity is available for the State to meet its operating requirements.

B. **Permitted Investments**

The following investments are authorized for purchase by the Investment Division for the Fund:

1. U.S. Treasuries, agencies, and instrumentalities (which includes securities issued by government sponsored enterprises or corporations);

2. Certificates of deposit and other evidences of deposit at federally insured depository institutions approved pursuant to chapter 12C of the Iowa Code;

3. Domestic prime bankers' acceptances that are eligible for purchase by a federal reserve bank and which mature within 270 days from the date of purchase;

4. Domestic commercial paper maturing within 270 days from the date of purchase. Commercial paper must have a rating of A1+/P1 or A1/P1 by Standard & Poor's and Moody's rating service on the date of purchase. No investment shall be made in commercial paper which has a split rating (i.e. commercial paper with ratings of A1/P2 or A2/P1 are not acceptable.);

5. Short-term corporate debt, other than commercial paper, maturing within 270 days from the date of purchase and having one of the two highest ratings of either Standard & Poor's or Moody's rating service on the date of purchase, provided that at the time of purchase no more than 5% of the amounts invested in short-term corporate debt or commercial paper maturing within 270 days shall be invested in issues which are rated in the second highest rating classification;

6. Perfected repurchase agreements;
The following terms and conditions shall apply to the use of repurchase agreements:

(a) A repurchase agreement means a transaction in which the Fund transfers available cash collateral to a holder of eligible securities consisting of acceptable collateral (defined below), which holder contractually commits to reacquire such eligible securities (or their equivalent) from the Fund at a higher, agreed-upon price upon repurchase.

(b) Overnight repurchase agreements require a minimum of 102% collateralization, with daily updated valuation. Any deficiencies must be made up by the holder the next business day.

(c) Collateral will be held by the custodian or an acceptable sub-custodian, acting on behalf of the Fund, which is chosen by the Fund.

(d) Acceptable collateral for repurchase agreements are obligations issued by the United States Treasury, or obligations issued by agencies or government sponsored enterprises of the United States government.

7. Obligations or guaranteed investment contracts of domestic corporations with maturities of greater than 270 days from the date of purchase, which have long-term ratings of not less than "A2" by Moody's and not less than "A" by Standard & Poor's;

8. Asset-backed securities rated AAA by Standard & Poor's or Aaa by Moody's which are purchased at par value or at a discount to par value and have an expected average time to receipt of principal (average life) of less than two years and a final maturity of less than three years at the time of purchase; and

9. Money market mutual funds which are open-end investment management companies organized in trust form registered with the federal Securities & Exchange Commission under the federal Investment Company Act of 1940, 15 U.S.C. section 80(a), and operated in accordance with 17 C.F.R. section 270.2a-7.

C. <u>Prohibited Investments</u>

The Fund shall not invest in any of the following:

a. Reverse repurchase agreements;
b. Options; or
c. Futures contracts

D. <u>Risk Tolerance / Avoidance</u>

The following practices shall be followed to avoid the referenced risks:

1. Institutional Default Risk -- Selection of Securities Dealers and Financial Institutions:

(a) ***Broker, Dealer or Financial Institution Default*:** To avoid defaults by brokers, dealers or financial institutions when buying investment securities, all transactions shall be on a delivery versus payment basis. Tri-party arrangements or agreements shall not be utilized. It is the goal of the Treasurer to utilize primary dealers and Iowa brokers, dealers and financial institutions.

(b) ***Financial Institution Default*:** To avoid default risks with Iowa financial institutions with which the Treasurer deposits Fund moneys, the Treasurer shall determine, in advance of deposits greater than federal insurance coverage, that each depository meets the requirements of Chapter 12C of the Iowa Code.

2. **Market Risks:**

   (a) ***Speculation****:* Securities shall be purchased with the intent of holding them to maturity. Investment shall not be made for the purpose of trading or speculation. Securities shall not be sold prior to maturity with the following exceptions: 1) A security with declining credit may be sold early to minimize loss of principal; 2) A security swap would improve the quality, yield, or target duration of the portfolio; or 3) Liquidity needs of the portfolio require that the security be sold.

   (b) ***Interest Rate Risk***: The Treasurer recognizes that the market value of securities will fluctuate in response to changes in interest rates. The buy-and-hold strategy utilized by the Fund, the maturity limits contained in this policy, and the maturity diversification parameters and liquidity funding requirements set by the Investment Committee shall serve to limit the amount of interest rate risk of the Fund.

3. **Concentration Risk:** No investment or trading strategy that risks the total Fund shall ever be employed. The Fund's investments shall be diversified by:

   (a) ***Security Issuer****:* If a purchase would cause more than 5% of the overall portfolio to be invested in securities of a single issuer, the investment shall not be made. This provision does not apply to investments in U.S. Treasuries, government agencies or instrumentalities.

   (b) ***Security Types:*** The following limitations shall apply at the time of purchase. If a purchase of one of the following security types would violate the limitation, then the investment shall not be made:

      i. The combined investments in commercial paper and corporate debt securities which had maturities of 270 days or less at the time of purchase shall not exceed 30% of the overall investment portfolio.

      ii. The investments in bankers' acceptances shall not exceed 30% of the overall investment portfolio.

      iii. The investments in asset-backed securities shall not exceed 10% of the overall investment portfolio.

      iv. The investments in corporate debt securities which had maturities of greater than 270 days at the time of purchase shall not exceed 20% of the overall investment portfolio.

   (c) ***Repurchase Agreement Counterparty Risk****:* If entering into a repurchase agreement would cause more than 20% of the overall portfolio to be invested in repurchase agreements with a single broker-dealer, the investment shall not be made.

4. **Liquidity Risk:**

   (a) ***Cash Flow Analysis:*** The Investment Division will regularly monitor and analyze available cash flow projections to ensure that investment maturities, expected revenues, and cash receipts are sufficient to pay all warrants expected to be presented against the accounts of Fund participants. The investment division shall maintain an appropriate investment in overnight repurchase agreements to provide daily liquidity, or an appropriate amount in a liquidity reserve to provide emergency liquidity if ever needed. The Investment Division shall also seek to provide additional liquidity by investing predominantly in marketable securities.

   (b) ***Maturity Limitations***: No investment shall be made in a U.S. Treasury note or bond with a maturity that exceeds 10 years, a U.S. government agency note or bond with a maturity that exceeds sixty-one months at the time of purchase, or a U.S. government instrumentality note or bond with a maturity that exceeds sixty-one months at the time of purchase. (The sixty-one month maturity limitation for government agency or instrumentality securities does not apply to such securities if accepted as collateral under a repurchase agreement.) No investment shall be made in an asset-backed security that has an expected average life greater than two years at the time of purchase and a final maturity greater than three years at the time of purchase. The maturities of commercial paper and bankers acceptances shall not exceed 270 days at the time of purchase. The maturities of all other investments shall not exceed twenty-five months at the time of purchase.

   (c) ***Maturity Diversification:*** The Committee shall set permitted maximum dollar amounts that can be invested in specific maturity sectors that are consistent with the overall portfolio strategy and this investment policy.

   (d) ***Liquidity Reserve***: The Committee shall specify how much liquidity shall be reserved to ensure that adequate cash is available to meet any unexpected expenditures that may occur. The liquidity reserve should be continuously invested in money market mutual funds or money market accounts with Iowa financial institutions.

5. **Credit Risk of Corporate Issuers:** To ensure that investments in commercial paper and corporate debt securities are of a credit quality suitable for the Fund, the Investment Division and the Compliance Officer shall use the current credit rating of an issue as established by Standard & Poor's and Moody's Rating Services, if such ratings are provided. A subscription service or on-line system from one of these rating agencies, or some other method of verifying credit ratings which is acceptable to the Committee, shall be used by the Investment Division and the

Compliance Officer for the purpose of verifying the credit rating of an issue prior to its purchase. The Compliance Officer shall report to the Committee any issues in the portfolio which have been put on credit watch or which have been downgraded since the previous meeting.

6. **Currency Risk:** All investments shall be denominated in and be payable in U.S. dollars. The Fund will not tolerate currency risk.

7. **Leverage:** Assets of the Fund will not be leveraged through the use of reverse repurchase agreements.

8. **Use of Derivatives:** The Fund shall not invest in futures contracts, options, collateralized mortgage obligations, private named mortgages, esoteric investments, or complex derivative structures including, but not limited to, inverse floating rate notes, range floating rate notes, trigger notes, or any investment which can acquire a negative coupon.

E. Performance Standards

(a) ***Safety***: The investment portfolio shall be prudently invested so that the Fund does not incur realized losses of principal.

(b) ***Liquidity:*** The investment portfolio shall be prudently invested so that funds are available to pay all warrants presented against the accounts of participants in the Fund.

(c) ***Yield:*** The investment portfolio shall be designed to attain a market-average yield throughout budgetary and economic cycles, taking into account the Treasurer's investment risk constraints, cash flow characteristics of the Fund, and restrictions imposed by law. The annualized average daily yield of the investment portfolio should regularly exceed the annualized average daily yield for a 90-day U.S. Treasury bill. The annualized average daily yield for the portfolio and for the 90-day U.S. treasury bill shall be calculated by dividing the net accrued income for the day (defined as total daily accrued income less any daily amortization amount plus any daily accretion amount) by the book value at the beginning of the day, and then annualizing the result.

(d) ***Return:*** The Fund investment portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis.

III. ADMINISTRATION

A. Custody

All assets of the Fund shall be secured through the use of a third-party custodial institution, or held in the Treasurer's vault. Certificates of deposit with Iowa financial institutions may be held for safekeeping at the issuing institution, provided that a copy of the certificate is forwarded to the Treasurer's office. Safekeeping procedures shall be reviewed annually by the State Auditor. The Auditor may conduct surprise audits of safekeeping procedures.

B. Settlement

All purchases and sales of investment securities shall be on a delivery versus payment basis.

C. Personnel

The Treasurer shall employ competent, qualified personnel to manage the Fund, and shall create procedures to assure efficiency and safety in Fund management.

D. Local Deposits

It is the intent of the State Treasurer to deposit a portion of the Fund in Iowa financial institutions in amounts and maturities that correspond to the State's need for liquidity and yield. These deposits will be made only in financial institutions that meet the requirements of chapter 12C of the Iowa Code.

E. Custodians of the Public Trust

All investment officials shall avoid any transaction that might impair public confidence in the State's ability to govern effectively. Investment officials shall recognize that the Fund is subject to public review, and shall responsibly manage the Fund with a degree of professionalism that is worthy of the public trust.

F. Competitive Selection

When investing assets of the Fund, the investment manager shall attempt to obtain at least three offerings for investments of comparable credit quality for the term requirement.

G. Third-Party Agreements

All contracts or agreements with outside persons for investing assets of the Fund, advising on the investment of the assets of the Fund, directing the deposit or investment of the Fund or acting in a fiduciary capacity shall require the outside person to notify the Treasurer in writing within thirty days of receipt all communication from the auditor of the outside person or any regulatory authority of the existence of a material weakness in internal control structures or regulatory rulings or sanctions. Furthermore, no agreement or contract with an outside person shall base the payment of the outside person's compensation on investment performance.

H. Public Records

If a fiduciary or other third party with custody of the Fund's investment transaction records fails to produce public records within a reasonable period of time as requested by the Treasurer, the Treasurer shall make no new investments with or through the fiduciary or other third party and shall not renew existing investments upon their maturity with or through the fiduciary or other third party.

I. Securities Lending

The State Treasurer may authorize the use of a securities lending program for the Fund and execute any agreements or documents necessary to implement such a program.