



Investment Policy Statement (IPS)

July 2019

The Honorable David L. Young
State Treasurer
Colorado Department of the Treasury
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State Capitol Room 140
Denver, Colorado 80203

www.colorado.gov/treasury

**Colorado Department of the Treasury
Investment Policy Statement (IPS) – 2019**

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I. General Policy

Statutory Authority

The State Treasurer is the Chief Executive Officer of the Colorado Department of the Treasury (under C.R.S. §24-36-101("Treasury Department" or "State Treasury")). Employees of the Treasury Department are appointed pursuant to the provisions of C.R.S. §24-2-102(2), except for one deputy, who is appointed by the State Treasurer. The constitution and laws of the State of Colorado (the "State") vest in the State Treasurer the custody of all State monies and the authority to invest said monies in such manner as in the State Treasurer's discretion and judgment will best serve the interest of the State for all funds, including: The Treasury Pool under C.R.S. §24-36-109 through C.R.S. §24-36-113, and the Unclaimed Property Tourism Promotion Fund pursuant to C.R.S. §38-13-116.7. The State Treasurer is required by law to submit a written report to the Governor at the end of each quarter of the fiscal year showing the condition of the State Treasury and the amount of money in the funds. *See* C.R.S. §24-22-107(1). The Treasurer has delegated the day to day administration of this policy and investment authority vested in these statutes to the investment officers of the State Treasury Investment Division under the direction and supervision of the Chief Investment Officer (CIO).

Scope

This policy applies to the Treasury Pool Fund ("TPOOL"), the Unclaimed Property Trust Fund ("UPTF") and the Major Medical Insurance Fund ("MMIF").

Prudence

All participants in the investment decision-making process are required to act responsibly as fiduciaries of the public trust. The standard of prudence applied to the officers of the Investment Division shall be the Uniform Prudent Investor Act (C.R.S. §15-1.1-101, *et seq.*), which sets forth the standard of care, portfolio strategy, and risk return objectives: (a) "A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution. (b) A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk return objectives reasonably suited to the trust". *See* C.R.S. §15-1.1-102. C.R.S. §15-1.1-107 states; "In investing and managing trust assets, a trustee may only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the trust, and the skills of the trustee." In accordance with C.R.S. §15-1.1-108, compliance with the prudent investor rule is determined in light of the facts and circumstances existing at the time of a trustee's decision or action and not by hindsight.

Ethics and Conflict of Interest

State Treasury employees involved in the investment decision-making process shall refrain from personal business activity that could create an appearance of impropriety or could

conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

All employees and investment officers shall disclose to the State Treasurer any financial interests in financial institutions that conduct business within Colorado, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the portfolio. Any person employed in the Department of the Treasury, including the State Treasurer/Deputy Treasurer, as well as any outside person, receiving or giving anything of value in exchange for consideration of the investment use of State moneys to unlawfully profit shall be subject to a class 6 felony provided in C.R.S. §18-1.3-401 under C.R.S. §24-22-110 and C.R.S. §24-22-111.

Objectives

The State Treasurer's primary objectives for managing its investment portfolios are detailed in statute (C.R.S. §24-36-113: namely, "the State Treasurer shall use prudence and care to preserve the principal and to secure the maximum rate of interest consistent with safety and liquidity").

The State Treasurer may, in the State Treasurer's discretion, under C.R.S. §24-36-113, as amended, invest such moneys in:

- Debt obligations of the United States treasury, any agency of the United States government, or United States government-sponsored corporations.
- Municipal bonds rated in one of the two highest rating categories by a nationally recognized rating organization.
- Repurchase agreements, in banker's acceptances or bank notes issued by banks rated at least investment grade by a nationally recognized rating organization, in commercial paper of prime quality as so classed by a nationally recognized rating organization, and in money market funds that are registered as an investment company under the federal "Investment Company Act of 1940", as amended.
- Corporate debt obligations rated at least investment grade by a nationally recognized rating organization.
- Asset-backed securities and covered bonds rated in one of the two highest rating categories by a nationally recognized rating organization.
- The State Treasurer may, in the State Treasurer's discretion, invest such money in securities that are issued by a sovereign, national, or supranational entity and are rated at least investment grade by a nationally recognized rating organization.
- Mortgage pass-through securities and collateralized mortgage obligations that are issued by any agency of the United States government or a United States government-sponsored corporation or that are rated in one of the two highest rating categories by a nationally recognized rating organization.
- Reverse repurchase agreements and securities lending programs for any securities in the state treasurer's custody and may purchase loans if, in the state treasurer's discretion, the purchase of loans will yield a fair and equitable return to the state.

The State Treasury investment guidelines for individual portfolios, however, have been formulated with more conservative credit quality ratings, broader portfolio diversifications, better liquidity, shorter maturity/duration profiles and performance measures appropriate to the public purpose and goals of each fund.

The State Treasury will seek to enhance overall portfolio performance by means of active portfolio management. The Treasurer will not employ the use of speculative investment practices that gain or profit through the taking of unusual risks. Unusual risks include, but are not limited to, taking excessive short or long duration positions and leveraging the portfolio through the use of derivative instruments. However, trading in response to and in anticipation of changes in market value or market direction of interest rates, credit spreads and credit fundamentals is expected under active portfolio management to optimize cash flows from income and capital gains, and minimize realized losses.

Credit Quality Ratings

Overall, eligible securities/issuers must be rated at least by one and preferably two nationally recognized rating organizations. One rating must be from Moody's or Standard & Poor's; a second rating may be from Fitch or another nationally recognized rating agency. Minimum acceptable ratings vary by individual portfolio.

A legal opinion obtained from the Colorado Attorney General's office in July 2000 states that bonds whose rating is downgraded subsequent to their purchase may be retained at the Treasurer's discretion.

Risk Restrictions

Derivative securities are not permitted. Derivative securities are defined as any instrument whose value is derived from the value of some underlying asset, commodity, index or benchmark, including but not limited to, structured notes, swaps, options, forwards, or futures. The State Treasury also will not accept structures of adjustable rate securities that are characterized by high levels of volatility and whose market value may differ significantly from their amortized cost values.

Broker-Dealer Requirements

Approved broker-dealers must be one of the following: designated as a primary government securities dealer by the Federal Reserve Bank of New York, a regional dealer, a direct issuer of eligible investments (such as BAs or CP) or a dealer representing a large number of institutional buyers and sellers on an electronic platform providing competitive bids and offers. Approved broker-dealers must have a minimum net capital of one hundred million dollars, to be reviewed annually at a minimum, must be self-clearing or have a third party agreement with an entity having the required net capital and clearing, must have been in operation for at least three years, and must not have a qualification of the auditor's opinion or a contingent liability that could materially affect the firm's capital. The firm must be in compliance with the Uniform Net Capital rule of the Securities & Exchange

Commission. Current financial statements must be available to the State Treasury on demand.

No independent contractor arrangements will be considered, except when authorized in writing. No broker-dealer may list the Colorado State Treasury as a reference or client for any purpose.

Reporting

Quarterly reports are prepared and displayed on the State Treasury website (<https://www.colorado.gov/treasury>) with a list of holdings by portfolio.

Internal Controls

The State Treasurer has established a system of internal controls designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees and officers of the Department. Controls deemed most important include: a code of ethics, clear delegation of authority, separating transaction authority from accounting, record keeping, custody/safekeeping, written confirmation of transactions, minimizing the number of authorized investment officials, and documentation of transaction strategies on the Trade Order (TO) system.

Safekeeping and Custody

All security transactions will be conducted on a delivery versus payment basis for the account of the State Treasurer. Written confirmation by the broker-dealer is required for every trade to record the transaction on the TO system. Securities will be held by the State Treasurer or by a third-party custodian designated by the State Treasurer and evidenced by safekeeping receipts.

Performance Evaluation

For management purposes, both the book yield performance and total rate of return performance are calculated for each portfolio and compared to various appropriate security market indices.

Investment Policy Authorization

This Investment Policy Statement is to be reviewed and updated annually. Only the State Treasurer or their designee may approve the Investment Policy or any changes made to it.

The effective date of the most recent changes to policy will be reflected on the cover of the Investment Policy Statement.

II. Treasury Pool Fund (TPOOL)

Fund Description (C.R.S. §24-36-109 through C.R.S. §24-36-113)

Participation in the State Treasurer's cash/investment pool fund (TPOOL) is mandatory for all State agencies with the exception of Colorado Mesa University, the Colorado State University System, the Colorado School of Mines, Fort Lewis State College, and the University of Colorado. Per C.R.S. §24-75-603(4)(a), public funds shall initially be placed in a bank/savings and loan in Colorado that is an eligible public depository certified by the State banking board or State financial services board that offers FDIC insurance on its deposits. Per C.R.S. §24-75-603(4) (b), deposits that exceed the FDIC insured amount may be placed in one or more other banks/savings and loan wherever located in the U.S. The State Treasurer, in consultation with the State's investment custodian, determines the fair value of the pool's investments at each month-end for performance tracking purposes. Short-term realized gains, losses, and interest earnings, adjusted for amortization of investment premiums and discounts, are distributed monthly. The statutes authorize the participants to receive monthly interest and investment earnings prorated based on the average daily account balances held during the month.

The pooling process provides administrative efficiency and increased yield and liquidity due to economies of scale provided to the participants.

The State Treasurer is authorized by statute to deposit State monies with national or state banks doing business in the State, or savings and loan associations having their principal office in the State, for fixed periods of time.

Performance Evaluation

The yield evaluation benchmark for the combined TPOOL portfolio is based on the 12-month moving average yield of the U.S. Treasury two-year Constant Maturity Index as published by the Federal Reserve and reviewed over a three-year time period.

The total return performance of the TPOOL Fund is monitored against the customized benchmark composed of the Bloomberg Barclays US Aggregate Total Return Index (50%) and the Bloomberg Barclays US Treasury Bill 1-3 Months Total Return Index (50%).

Trades and Exchanges

The State Treasury may sell or exchange securities in the course of daily management of the portfolio. Realized losses are generally neutralized with realized gains if possible or from additional income earned over the next 12 months. Trades may be executed for a variety of reasons, including: to raise cash, to enhance realized cash flows by actively managing maturity/duration, sector mix, and credit quality, and/or as preemptive actions in anticipation of changes in economic conditions, credit fundamentals or the credit rating outlook of securities and issuers.

Policy Limits

All policy limits apply at the time securities are purchased to their current market value. Any policy deviations should be corrected within 3 months subject to favorable market conditions.

TPOOL Fund Investment Guidelines

Maturity/Duration

The Weighted Average Effective Duration: 3 years within range of 1-5 years

Maximum Stated Maturity Limited to 30 years from the settlement date.

Diversification Limits Percentage of the TPOOL

Cash Equivalents (investments under 1 year) 60%

Corporates 70%

Government/Sovereign/Supranational 10%-100%

Securitized 30%

Taxable Municipals 10%

Corporate Credit Quality Issuer Limits Percentage of the TPOOL

AAA-AA 5%

A 4%

Baa 3%

Issue Limits Percentage of the TPOOL

Corporate/Commercial Paper/Securitized 2%

Sovereign/Government/Supranational 4%

A commercial paper issuer's short-term debt must be rated the equivalent of prime one (A1/P1) by at least two nationally recognized rating organizations, and the senior debt of the issuer or the issuer's parent company must be rated no less than 'A3/A-'.

Commercial-paper programs must meet the various criteria and be exempt from registration under Section 3(a) 3 of the Securities Act of 1933, as amended. Rule 144A securities are not permitted.

Money Market Funds: Institutional Money Market Funds may be used for liquidity or when there is a clear rate advantage over other available short-term alternatives. The funds used must be registered under the Investment Company Act of 1940 and in compliance with Rule 2a-7 and C.R.S. §24-75-601.1. The funds selected must have a constant share price with no sales and load fees with desirable fund size, experience, performance, and administrative capacity. The Money Market Fund must only invest in treasury or treasury/agency securities to avoid exposure to credit risk. No more than 10% of the TPOOL FUND will be held in money market funds, and no more than \$300 million will be held in any one fund.

Securitized: Purchases of Residential and Commercial Mortgage-Backed Securities (MBS and CMBS, respectively) and Agency Collateralized Mortgage Obligation (CMOs) collateralized by FNMA, FHLMC, and GNMA limited to those issues whose cash flows are modeled on the Bloomberg mortgage analysis system.

Asset-Backed Securities (ABS): The issuing entity trust must be registered in the U.S.A.

-The issue must be secured by auto or credit card fixed rate loans, and rated in the highest rating category by one or more nationally recognized rating organization at the time of purchase.

-No asset-backed securities with an insurance wrap may be purchased.

-Only ABS secured by prime receivables may be purchased. No ABS secured by non-prime or sub-prime receivables may be purchased.

Bank & Corporate Notes: Banks must be FDIC insured. The senior debt of the issuer must be rated no less than investment grade by at least two nationally recognized rating organizations and in split-rated securities, the lower rating will apply.

-Total holdings of the securities of a given 'BAA/BBB' rated issuer will be limited to 3% of the portfolio.

-Total holdings of the securities of a given 'A' rated issuer will be limited to 4% of the portfolio.

-Total holdings of the securities of a given 'AA' or 'AAA' issuer will be limited to 5% of the portfolio.

-No subordinated security may be purchased.

-144A securities are not permitted

Yankee Bonds are issued by foreign issuers in the US, denominated in US dollars, limited to 10% of the portfolio

Taxable Municipals: General (full faith and credit of the issuing entity) and revenue (backed by a specific revenue stream) obligation bonds issued by states, cities, counties and other governmental entities in the US may be purchased with maturity limited to 5 years.

III. Unclaimed Property Tourism Promotion Trust Fund Investment Guidelines

Fund Description (C.R.S. §38-13-116.7)

The Unclaimed Property Tourism Promotion Trust Fund ("UPTF") was created in 2004 within the Department of the Treasury. The principal consists of all proceeds collected by the administrator of the fund from the sale of securities pursuant to C.R.S. §38-13-115. The principal of the UPTF shall not be expended except to pay claims and is not subject to appropriation by the General Assembly. The interest derived from the deposit and

investment of moneys in the unclaimed property tourism promotion trust fund shall be credited to the following funds:(I) Twenty-five percent of the interest to the Colorado State Fair Authority Cash Fund created in C.R.S. §35-65-107(1), subject to appropriation by the General Assembly;(II) Sixty-five percent of the interest to the Agriculture Management Fund created in C.R.S. §35-1-106.9, subject to appropriation by the General Assembly.(III)Ten percent of the interest to the Colorado Travel and Tourism Promotion Fund created in C.R.S. §24-49.7-106(1), subject to appropriation by the General Assembly pursuant to C.R.S. §24-49-06(3), for use in the promotion of agri-tourism in the State.

Trades and Exchanges

The State Treasury may sell or exchange securities in the course of daily management of the portfolio. Realized losses are to be neutralized with realized gains and income. Trades may be executed for a variety of reasons, including: to raise cash and enhance realized cash flows by actively managing maturity/duration, sector mix, and credit quality, and/or as preemptive actions in anticipation of changes in economic conditions, credit fundamentals or the credit rating outlook of securities and issuers.

Liquidity

Sufficient liquidity must be maintained to ensure that all operational requirements are met and that the overall quality and marketability of the portfolio is maintained. Both short-term cash needs and long-term projections will be reviewed on a regular basis to establish an appropriate level of liquidity.

Investment Objective

Since the principal of the UPTF is not expendable except to pay claims and, not subject to appropriation by the General Assembly, the overall objective of the fund is to preserve, protect and grow the principal of the fund over a longer term time horizon.

Maturity/Duration

The portfolio is permitted to invest in fixed income securities across 1-30 year maturities. Decisions on maturity will depend on the current level of interest rates, the shape of the yield curve, economic forecasts, credit fundamentals and spreads. The effective duration of the portfolio shall be normally within +/- 20% of the Bloomberg Barclays US Aggregate Total Return Index with no limitation on the minimum duration, subject to operating cash flow requirements to pay claims.

Diversification

The specific summary of limitations based on current market value of the fund include diversification by sectors, maturity, rating, instrument and issue/issuer.

Sector	Min/Target/Max
Treasury/Agency/Government Guaranteed Sovereign/National/Supranational	20/20/100
Mortgages	0/10/50
Domestic Corporate Yankees	0/50/60 0/0/10
Asset-Backed	0/15/30
Taxable Municipals	0/0/10
TPOOL	0/5/30

US Treasury/Agency/Government-Guaranteed/Sovereign/NationalSupranational Sector:
A minimum of 20% of the portfolio will be held in this sector.

Mortgage: Mortgage-backed pools backed by residential (RMBS) and commercial (CMBS) and collateralized mortgage obligations (CMOs) may be purchased.

-CMOs must be backed by GNMA, FNMA or FHLMC collateral.

-The original size of any issue purchased must have been at least \$100 million.

-In the case of agency-direct CMO issues whereby the broker-dealer is acting as official agent for Fannie Mae or Freddie Mac and the Trustee is Fannie Mae or Freddie Mac, there will be no maximum amount constraint per issuer.

Domestic Corporate/Yankees: The senior debt of the issuer must be rated no less than 'BAA/BBB' by at least two nationally recognized rating organizations and in split-rated securities, the lower rating will apply.

-Total holdings of the securities of a given 'BAA/BBB' rated issuer will be limited to 3% of the portfolio.

-Total holdings of the securities of a given 'A' rated issuer will be limited to 4% of the portfolio.

-Total holdings of the securities of a given 'AA' or 'AAA' issuer will be limited to 5% of the portfolio.

-No more than 5% of the portfolio will be held in the securities of any issuer. No more than 5% of an issue may be held.

-No more than 60% of the portfolio will be held in Corporate securities and no more than an additional 10% in Yankee securities.

-No subordinated security may be purchased.

-Rule 144A securities are not permitted.

Asset-Backed Securities (ABS): The issuing entity trust must be registered in the U.S.A.

-The issue must be secured by auto or credit card fixed rate loans, and rated in the highest rating category by one or more nationally recognized rating organizations at the time of purchase.

- No asset-backed securities with an insurance wrap may be purchased.
- Only asset-backed securities secured by prime receivables may be purchased.
- No more than 5% of a single deal will be held. No more than 5% of the portfolio will be held in the securities of a single issuer.

Taxable Municipals: General (full faith and credit of the issuing entity) and revenue (backed by a specific revenue stream) obligation bonds issued by states, cities, counties, and other governmental entities in the US rated investment grade may be purchased across 1-30 year maturities.

Performance Measurement

The yield performance evaluation benchmark for the UPTF will be based on the 12-month average yield for the U.S. Treasury Seven-year Constant Maturity Index as published by the Federal Reserve and reviewed over a five-year time period.

The total rate of return performance evaluation benchmark for the UPTF is the Bloomberg Barclays US Aggregate Total Return Index.

IV. Broker-Dealer Notice

By virtue of conducting investment transactions with the Colorado Department of the Treasury approved broker-dealers acknowledge that they have reviewed the Investment Policy Statement displayed on the Colorado Department of the Treasury website, and sent a signed statement to the State Treasurer acknowledging an understanding of this Investment Policy Statement. Approved broker-dealers agree to have implemented reasonable procedures and internal controls to preclude imprudent and fraudulent investment activities arising out of investment transactions conducted between the Colorado Department of the Treasury and the approved broker-dealers. It is expected that all approved broker-dealers use professional due diligence in informing the Colorado Department of the Treasury of foreseeable risks associated with financial transactions.

V. Colorado State Treasurer's Acceptance

The policies and procedures contained herein are accepted as the official Investment Policy Statement for the Colorado Department of the Treasury.


David L. Young
Colorado State Treasurer

Accepted
Date: 7/12/19

STATE OF COLORADO
DEPARTMENT OF THE TREASURY

Dave Young
Treasurer



Eric Rothaus
Deputy Treasurer

Broker-Dealer Acknowledgment

By our signature below, we acknowledge that our firm has received, read and agrees to comply with all requirements and limitations in the State of Colorado Treasury Department's Investment Policy Statement.

I am authorized to sign on behalf of my firm.

Signature

Date

Title

Firm

Address

Phone

City, State, Zip

Email

Website

Please send a signed hard copy of this form to:
Colorado Department of the Treasury
200 E. Colfax Ave, Room 140
Denver, CO 80203

