

Investment Policy Statement (IPS)

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February 23, 2023

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

[treasury.colorado.gov/](https://treasury.colorado.gov/)

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Investment Policy Statement (IPS)  
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## **I. General Policy**

### **Statutory Authority**

The State Treasurer is the Chief Executive Officer of the Colorado Department of the Treasury (as set forth at § 24-36-101, C.R.S. (the “Treasury Department” or “State Treasury”). Employees of the Treasury Department are appointed pursuant to the provisions of § 24-2-102(2), C.R.S. 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 § 24-36-109, C.R.S. through § 24-36-113, C.R.S., and the Unclaimed Property Tourism Promotion Fund pursuant to § 3813-801.5, C.R.S. 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 § 24-22-107(1), C.R.S. The State Treasurer has delegated the day-to-day administration of this policy and investment authority vested in the 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”) and The Unclaimed Property Tourism Promotion Trust Fund (“UPTPTF”).

### **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 (§ 15-1.1-101, *et seq.*, C.R.S.), 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 § 15-1.1-102, C.R.S. § 15-1.1-107, C.R.S. states the following: “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 § 15-1.1-108, C.R.S., compliance with the prudent investor rule is determined considering 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 § 18-1.3-401, C.R.S. under § 24-22-110, C.R.S. and § 24-22-111, C.R.S.

Investment Officers who are Chartered Financial Analyst (“CFA”) charter holders are required to adhere to the Code of Ethics and Standards of Professional Conduct set forth by the CFA Institute (<https://www.cfainstitute.org/en/ethics-standards/ethics/code-ofethics-standards-of-conduct-guidance>).

### **Objectives**

The State Treasury's primary objectives for managing its investment portfolios are detailed in statute (§ 24-36-113, C.R.S., specifically), “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 § 24-36-113, C.R.S., 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 State 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, or risks involving environmental, social, governance, or other factors expected under active portfolio management to optimize cash flows from income and capital gains, and to 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, Standard & Poor's, or Fitch.

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 State 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.

### **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 and /or FHLB, a regional dealer, a direct issuer of eligible investments (such as BAs or CP) or a dealer representing many 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, or deemed competitive based on value added from expertise in research (information from and access to analysts, strategists, and economists) and/or trading (new issue underwriting, best bids and offers, and sales coverage), 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 U.S. Securities & Exchange Commission (the "SEC"). 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://treasury.colorado.gov/investment-reports>) 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 compliance, 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.

### **Accredited Investor/Qualified Institutional Buyer**

The State Treasury qualifies as an “accredited investor” and a “qualified institutional buyer” (“QIB”) as set forth by the definitions amended by the SEC effective December 8, 2020 [Release Nos. 33-10824; 34-89669; File No. S7-25-19; RIN 3235-AM19].

## Treasury Pool Fund (TPOOL)

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

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 § 24-75-603(4)(a), C.R.S., 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 § 24-75-603(4)(b), C.R.S., 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. Interest earnings, adjusted for amortization of investment premiums and discounts, are distributed monthly, realized gains or losses are distributed at fiscal year-end. 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 book yield evaluation benchmark for the combined TPOOL portfolio is based on the 12-month moving average yield of the monthly U.S. Treasury two-year Constant Maturity Index as published by the Federal Reserve.

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%). However, the TPOOL portfolio is not managed for total return but to maximize realized cash flows, including interest income earned and realized net capital gains/losses distributed to the TPOOL participants.



### **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 or from additional income earned over the next 12 months, if possible. 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 or other risks involving environmental, social, governance, and/or as preemptive actions in anticipation of changes in economic conditions, credit fundamentals or a 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. Investment officers are required to obtain the pre-approval from the State Treasurer for deviations from this Investment Policy Statement if such deviations last, or are expected to last, more than three months.

### **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 Based on Bloomberg Barclays Classification System (as a percent of the TPOOL)**

- Investments under 1 year: 60% (including money market funds, commercial paper, and corporate/securitized securities maturing under 1 year).
- Corporate Bonds: 70%.
- Treasury/Agency/Sovereign/Supranational: 10%-100%.
- Securitized: 30%.
- Taxable Municipals: 10%.
- Money Market Funds: 25% with no more than 5% to be held in any one fund (based on portfolio market value).

### **Corporate Credit Quality Issuer Limits Based on the lower of Moody's, S&P's, or Fitch's long-term senior unsecured rating (as a percent of the TPOOL)**

- AAA-AA: 5%
- A: 4%
- Baa: 3%

**Issue Limits** (as a percent of the TPOOL)

- Corporate/Commercial Paper/Securitized: 2%.
- Sovereign/Government/Supranational: 4%.

*Commercial Paper:* 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 be exempt from registration under Section 3(a)(3) or Section 4(a)(2) of the Securities Act of 1933, as amended.

*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 SEC Rule 2a-7 (refers to 60 days average dollar weighted portfolio maturity and quality) and § 24-75-601.1, C.R.S (quality). 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.

*Mortgages:* Purchases of Residential and Commercial Mortgage-Backed Securities (MBS and CMBS, respectively) that are rated within the highest rating category by one or more nationally recognized rating organizations at the time of purchase (if not agency-backed) and Agency Collateralized Mortgage Obligation (CMOs) collateralized by FNMA, FHLMC, and GNMA.

*Asset-Backed Securities (ABS):* The issuing entity trust must be registered in the U.S.A. The issue must be rated in the highest rating category by one or more nationally recognized rating organizations at the time of purchase. Only ABS secured by prime receivables may be purchased. No ABS secured by non-prime or subprime receivables may be purchased.

*Floating Rate Notes ("FRNs") and U.S. Treasury Inflation Protected Securities ("TIPS"):* FRN securities with variable interest rate provisions with up to 30-year maturities may be purchased. Reference rates must have broad market usage. TIPS issued by the US Treasury may also be purchased.

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.

*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.

*Taxable Municipals:* General obligation (full faith and credit of the issuing entity) and revenue (backed by a specific revenue stream) bonds.

## **II. Unclaimed Property Tourism Promotion Trust Fund Investment Guidelines**

### **Fund Description (§ 38-13-801.5, C.R.S.)**

The Unclaimed Property Tourism Promotion Trust Fund (“UPTPTF”) 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 § 38-13-702, C.R.S. The principal of the UPTPTF 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) 25% of the interest to the Colorado State Fair Authority Cash Fund created in § 35-65-107(1), C.R.S. subject to appropriation by the General Assembly;(II) 65% of the interest to the Agriculture Management Fund created in § 35-1106.9, C.R.S., subject to appropriation by the General Assembly.(III)10% of the interest to the Colorado Travel and Tourism Promotion Fund created in § 24-49.7-106(1), C.R.S., subject to appropriation by the General Assembly pursuant to § 24-49-06(3), C.R.S., for use in the promotion of agritourism 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 generally neutralized with realized gains or from additional income earned over the next 12 months, if possible. 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 or other risks involving environmental, social, governance, and/or as preemptive actions in anticipation of changes in economic conditions, credit fundamentals or a 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 UPTPTF 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-year to 30-year maturities and FRNs and TIPS. 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.

<b>Sector</b>	<b>Min-Max (%)</b>
Treasury/Agency/Government Guaranteed Sovereign/National/Supranational	10-100
Mortgages (MBS, CMBS, CMO)	0-50
Domestic Corporate	0-60
Asset-Backed	0-30
Taxable Municipals	0-10
TPOOL	0-30

*US Treasury/Agency/Government-Guaranteed/Sovereign/National/Supranational Sector:* A minimum of 10% of the portfolio will be held in this sector.

*Mortgages:* Purchases of Residential and Commercial Mortgage-Backed Securities (MBS and CMBS, respectively) that are rated within the highest rating category by one or more nationally recognized rating organizations at the time of purchase (if not agency-backed) and Agency Collateralized Mortgage Obligation (CMOs) collateralized by FNMA, FHLMC, and GNMA.

*Corporate:* The senior and subordinated debt of the issuer must be rated no less than a 'BBB' rating category by at least one, preferably two nationally recognized rating organizations and in split-rated securities, the lower rating will apply.

- Total holdings of the securities of a 'BBB' rating category will be limited to 3% of the portfolio.
- Total holdings of the securities of a 'A' rating category will be limited to 4% of the portfolio.
- Total holdings of the securities of a 'AA' or 'AAA' rating category 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.

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

- The issue must be rated in the highest rating category by one or more nationally recognized rating organizations at the time of purchase.
- 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 obligation (full faith and credit of the issuing entity) and revenue (backed by a specific revenue stream) bonds.

### **Performance Measurement**

The yield performance evaluation benchmark for the UPTPTF 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.

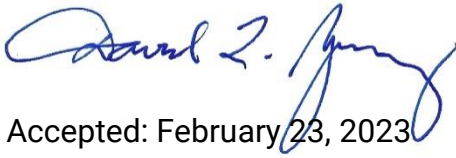
The total rate of return performance evaluation benchmark for the UPTPTF is the Bloomberg Barclays US Aggregate Total Return Index.

### **III. 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.

#### **IV. 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.



Accepted: February 23, 2023



# COLORADO DEPARTMENT OF THE TREASURY

**Dave Young**  
State Treasurer



**Eric Rothaus**  
Deputy Treasurer

## V. Broker-Dealer Acknowledgment

By my signature below, I acknowledge that my firm has received, read, and agrees to comply with all requirements and limitations in the State of Colorado Department of the Treasury's Investment Policy Statement, dated February 23, 2023 as displayed on <https://treasury.colorado.gov/colorado-finances-investing-for-colorado>.

I am authorized to sign this document on behalf of my firm.

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Signature

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Date

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Title

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Firm

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Printed Name

---

Phone

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Street Address

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Email

---

City, State, Zip

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Website

**Please email a signed copy of this form to:**

[cst\\_investment\\_team@state.co.us](mailto:cst_investment_team@state.co.us)