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Date: February 9, 2018

**TO: MEMBERS, INVESTMENT AND RISK COMMITTEE**

<b>I. AGENDA ITEM # AND TITLE :</b>	Open Agenda Item 3c: Consent Calendar: Approval of Short-Term Investment Policy Statement & Guidelines Resolution
<b>II. NAME AND PROGRAM:</b>	Treasury and Investments
<b>III. ACTIVITY:</b>	<input type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input checked="" type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
<b>IV. JUSTIFICATION:</b>	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

**V. EXECUTIVE SUMMARY:**

Resolution No. 2133 will replace Short-Term Investment Policy Statement and Guidelines Resolution No. 2126 which was created for the investment criteria and management of short-term investments, which are cash, cash equivalents, and securities with an initial maturity of one year or less. Resolution No. 2126 was approved by the Investment Committee in November 16, 2017 but not submitted to the full Board. In the interim, an additional investment restriction was proposed to the Short-Term Investment Policy Statement and Guidelines, reflected in Resolution No. 2133, for the Investment and Risk Committee to approve under the February 21, 2018 Consent Calendar and recommend to the full Board for approval.

**VI. ANALYSIS:**

The Short-Term Investment Policy Statement and Guidelines Resolution is being revised to restrict short-term investment in Asset Backed Commercial Paper.

Section	Changes:
D12	Add Asset Backed Commercial Paper to the list of securities prohibited for investment in Cash and Cash Equivalents.

**VII. APPENDIX:**

- Copy of Short-Term Investment Policy Statement and Guidelines Resolution No. 2133



**[DRAFT] BOARD OF DIRECTORS  
STATE COMPENSATION INSURANCE FUND**

[Proposed] To be presented for approval:  
Investment and Risk Committee: February 21, 2018  
Board of Directors: February 22, 2018

**SHORT-TERM INVESTMENT POLICY STATEMENT &  
GUIDELINES RESOLUTION**

WHEREAS, the Board of Directors of the State Compensation Insurance Fund (State Fund) is required to invest and reinvest the moneys of the State Fund which are in excess of current requirements in securities authorized by law for the investment of funds of private insurance carriers, in accordance with Sections 11787 and 11797 of the Insurance Code; and

WHEREAS, the State Fund is a non-tax paying entity; and

WHEREAS, the opportunities to acquire or dispose of such securities are such that it is impracticable to obtain the advice and determination of the Board in advance of each separate transaction; and

WHEREAS, the Board deems it to be prudent policy to establish standards which can be applied administratively to the selection and purchase of securities, which at the time of purchase have a maturity of one year (365 days) or less; and

RESOLVED, by the Board of Directors of the State Fund in regular meeting assembled at Pleasanton on February 21, 2018 that:

A. Investment Philosophy and Strategy

This Portfolio shall be structured and managed in a manner consistent with prudent and conservative investment practices. All purchases must meet the following criteria and any further detailed criteria.

Cash and Cash Equivalents Portfolio:

The objective of the cash portfolio is to preserve State Fund's surplus and principal, to maintain liquidity, and to provide a readily available funding source for settlement of trades, claims payments, and other necessary operational expenses.

B. Authority for Making Short-Term Investments

1. In accordance with Sections 11787 and 11797 of the Insurance Code, the President or Chief Investment Officer, and in their absence, either the Chief Financial Officer or Chief Risk Officer, or the designated staff within the Treasury & Investments Program are hereby authorized to purchase or sell, exchange, or otherwise dispose of at the market, the securities described in this Resolution and meets the conditions and standards set forth in Sections C through K of this Resolution as approved by the Board of Directors.
2. Any Investment Manager approved by the Board of Directors and under contract with State Fund may purchase and sell securities on behalf of State Fund per the terms, limitations and guidelines set forth in this SHORT-TERM INVESTMENT POLICY STATEMENT & GUIDELINES RESOLUTION under the primary direction of the Chief Investment Officer and, in his/her absence, at the direction of the officers listed in Paragraph 1 of this Section.

C. Cash and Cash Equivalents Attributes

The assets of this portfolio may be invested in any or all of the following instruments:

1. U.S Treasury obligations.
2. U.S. Government Agency obligations.
3. Commercial Paper issued by a corporation organized under the laws of the United States or any State.
4. Certificates of Deposit (CDs) issued by domestically chartered banks and savings and loans. The institution's charter is acceptable if granted by a state or national regulatory body. This includes domestically chartered branches of foreign banks, commonly referred to as Yankees.
5. Interest-bearing bank accounts in financial institutions authorized by law to receive deposits of public money.
6. State Treasurer's Pooled Money Investment Fund (PMIF).
7. Settlement/Transaction Account at the Federal Home Loan Bank of San Francisco.

D. Cash and Cash Equivalents Exclusions and Limitations

This investment policy specifically prohibits investing in, but not limited to:

1. Build America Bonds issued directly by the State of California
2. Auction Rate Securities (ARS)
3. Synthetic floaters, bonds and notes.
4. Extendable Debt Securities
5. Subordinated Corporate Debt Securities
6. Common and preferred stocks
7. Derivative Instruments
8. Commodities or futures
9. Short sales, margin purchases, and other means of leveraging are not permitted
10. Non-U.S. Dollar denominated investments
11. Repurchase agreements
12. Asset Backed Commercial Paper

## E. Asset Allocation

Up to 100% of the portfolio may be invested in obligations of the U.S. Treasury. Up to 100% of the portfolio may be invested in obligations of any one U.S. Government Agency.

Eligible Commercial Paper may not exceed 180 days' maturity, or represent more than 10 percent of the outstanding paper of an issuing corporation. No single Commercial Paper issuer may exceed \$25 million or 10% of the portfolio holdings, whichever is less. Eligible Commercial Paper is further limited to issuing corporations having market capitalization in excess of \$10 Billion. Commercial Paper holdings are limited to a maximum of 70% of the total Cash Management Holdings. For this Resolution, Cash Management Holdings equal the total value of short-term investments listed in Section C.

CDs per issuer may not exceed \$25 million or 10% of the portfolio holdings, whichever is less. CDs are further limited to issuing corporations having market capitalization in excess of \$10 Billion. CD holdings are limited to a maximum of 30% of the total Cash Management Holdings.

At time of purchase, all permitted investments shall conform to all respects to this policy. If a percentage restriction is adhered to at time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction.

The concentration of securities held in the portfolio will be rebalanced on a periodic basis to ensure compliance with diversification requirements as stated in this policy. Rebalancing will occur as required but at a frequency of not less than once per quarter.

## F. Maturities and Duration

Any illiquid investments must mature within thirty days from date of acquisition.

## G. Credit Rating Criteria

Credit rating is assigned to each security using the following logic: a) If one nationally recognized statistical rating organizations (NRSRO) rates the security, the rating will apply; b) If two NRSRO rate the security, the lower rating will apply; c) If all three NRSRO rate the security, the second lowest will apply. All purchases of Commercial Paper and CDs must have minimum short-term ratings of A-1 by Standard & Poor's or P-1 by Moody' and split rating is not allowed.

## H. Downgrade Policy

At time of purchase, all investments shall conform to the credit rating requirements of these guidelines. Any subsequent downgrade in credit rating after the time of purchase will not constitute a violation of this requirement. However, securities which are downgraded below minimum acceptable rating levels must be promptly reviewed and a plan of action should be determined within three business days of the downgrade. It is the responsibility of the Investment Manager to promptly report (within two business day) to the Company if a security falls below the minimum rating allowed by these guidelines. If an investment

drops below the allowed credit rating subsequent to purchase it is not mandatory the investment be sold. However, if the decision is made to hold the investment, documentation of the reasons for the decision must be delivered to the Company within five business days of the downgrade.

I. Disposal Policy

All sales require pre approval from the President or Chief Investment Officer, and in their absence, either the Chief Financial Officer or Chief Risk Officer, or the designated staff within the Treasury & Investments Program.

J. Performance Benchmarks

Performance results are benchmarked against a LIBOR based index or a suitable transparent public index which is correlated to the underlying portfolio. The short-term portfolios will use the following market benchmarks as appropriate:

- Merrill Lynch 3-Month Treasury index (investment manager)
- 1-month Treasury, 3-month Treasury, and 6-month Treasury

K. Investment Administration & Communications

1. Investment Manager must remain in compliance with this investment policy at all times. In the event of a breach in compliance, the Investment Manager will notify the Company immediately.
2. Investment Manager must meet (in person or via conference call) monthly with the Company to review the current portfolio structure, asset allocation, investment yield performance results, and any updated liquidity needs.
3. The Investment Manager must certify on a monthly basis that the portfolio has remained in compliance with the stated investment policy or itemize items that were not in compliance.
4. The Investment Manager will contact the Company immediately upon any significant adverse unfavorable event or shifts in the market place.
5. In the event that a security is placed on credit watch whereby any action taken by a rating agency would result in the investment's credit rating falling below the minimum acceptable credit quality level, the Investment Manager will notify the Company no later than the end of the next business day; otherwise notification will be made promptly.
6. The Investment Manager must provide SSAE 16 documentation on an annual basis.
7. Each month, the Investment Manager will provide an itemized list of the portfolio holdings, including their par value, amortized cost, unrealized gains and losses, market value, and accrued interest as of the Company's most recent month-end.

8. The Treasury and Investments staff who are responsible for making the short-term investments must remain in compliance with this investment policy at all times. In the event of a breach in compliance, the Treasury and Investments staff will notify the Chief Investment Officer and, in his/her absence, the officers listed in Section B.2. immediately. Balances maintained in the PMIF and any other short-term investments managed by the Treasury and Investments staff should be reviewed and reported to the Treasury and Investments Committee on a monthly basis.

RESOLVED, that this Resolution No. 2133 shall be created effective February 21, 2018 will replace Resolution No. 2126.

*I, Hilda B. Padua, Assistant Corporate Secretary for the State Compensation Insurance Fund Board of Directors, hereby certify that the foregoing resolution was adopted by the Investment Committee at their meeting held February 21, 2018 unless amended and approved by the Investment Committee at such time as minutes for the February 21, 2018 Investment Committee meeting are approved.*

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Hilda B. Padua, Assistant Corporate Secretary

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Date