COMMONWEALTH OF VIRGINIA
DEPARTMENT OF THE TREASURY

GENERAL ACCOUNT INVESTMENT GUIDELINES
Statement of Investment Policies and Goals

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OVERVIEW

The Commonwealth of Virginia, Department of the Treasury manages the General Account Investment Portfolio. These monies are comprised of funds collected and held for various fund groups including the General Fund of the Commonwealth.

This document sets forth the responsibilities of the Treasury and its investment managers relating to the implementation of the investment policy and asset strategy, and evaluation and review of investment performance and progress toward attaining goals.

State Treasury Policy

It is the policy of the State Treasurer to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all statutes governing the investment of public funds. Investments shall be made with 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 in the conduct of an enterprise of a like character and with like aims.

Treasury Objectives

The primary objectives, in priority order of the State Treasurer's investment activities shall be:

1. **Safety.** Safety of principal is the foremost objective of the investment program. Investments of the State Treasurer shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.

2. **Liquidity.** The State Treasurer's investment portfolio will remain sufficiently liquid to enable it to meet all operational requirements which might be reasonably anticipated.

3. **Return on investment.** The State Treasurer's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account its investment risk constraints and the cash flow characteristics of the portfolio.

POLICY GUIDELINES

General Account Structure

In order to meet the primary objectives of the State Treasurer, the General Account will be divided into two major Portfolios - a Primary Liquidity Portfolio and an Extended Duration and Credit Portfolio. The Primary Liquidity Portfolio, which will be internally managed by the Treasury Staff, will be the major source for disbursement requirements and operational needs of the General Account. Safety of principal and liquidity at the expense of return on investment are the foremost objectives of this portfolio.

The objective of the Extended Duration and Credit Portfolio, which will be externally managed, is to generate an investment return, over the long-term, higher than the return on assets managed internally (Primary Liquidity Portfolio). To generate higher investment returns, it is recognized that additional interest rate risk and credit risk, within prudent constraints, must be assumed in the management of the Extended Duration and Credit Portfolio. To further control these risks, and to provide for sufficient managerial flexibility, the Extended Duration and Credit Portfolio may be structured into three sub-portfolios: a Short Duration Portfolio, an Intermediate Duration Portfolio, and a Long Duration Portfolio. **However, in seeking higher investment returns, the portfolio managers of the Extended Duration and Credit Portfolio will be cognizant of the Treasury objectives of safety of principal and liquidity.**

Asset Mix Policy

The Treasury's allocation targets for the overall General Account asset mix are:

Primary Liquidity Portfolio	55%
Extended Duration and Credit Portfolio	45%

The Treasury's allocation guidelines for the Extended Duration and Credit Portfolio are:

	Target	Minimum	Maximum
Short Duration Portfolio	40%	20%	60%
Intermediate Duration Portfolio	40%	20%	60%
Long Duration Portfolio	20%	10%	30%

The intent of the Asset Mix Policy is to increase the overall average maturity of the General Account Investment Portfolio to enhance the returns over the long-term. Deviations from the allocation targets for the General Account, and from the guidelines for the Extended Duration and Credit Portfolio listed below, may be made by the Treasury Investment Staff, when economic conditions or liquidity needs warrant, or when the Treasury Investment Staff determines that the aggregate deviation does not constitute a material departure from the spirit of the target allocation and the intent of the Treasury Board. The Treasury Investment Staff shall review the target allocations and guidelines at least annually.

Investment Guidelines and Restrictions

Authorized Investments

The primary objective of the State Treasurer's investment activities shall be, in priority order, safety of principal, liquidity and return on investments.

The State Treasurer is empowered by Sections 2.2-4500 et seq. of the *Code of Virginia* to invest in the following types of securities:

1. Obligations issued or guaranteed by the U.S. Government, an Agency thereof, or U.S. Government sponsored corporation. This includes Agency Mortgage Backed Securities (MBS). These securities can be held directly, in the form of repurchase agreements collateralized by such debt securities, and in the form of a registered money market or mutual fund provided that the portfolio of the fund is limited to such evidences of indebtedness.

2. Non-negotiable certificates of deposit and time deposits of Virginia banks and saving institutions federally insured to the maximum extent possible and collateralized under the Virginia Security of Public Deposits Act (VA SPDA).

3. Repurchase agreements collateralized with securities that are approved for direct investment as stated herein. The collateral on overnight or one-day repurchase agreements is required to be at least 100% of the value of the repurchase agreement. Longer term repurchase agreements are required to have collateralization in excess of 100% and be marked to market on a daily basis.

4. Negotiable certificates of deposit, negotiable bank deposit notes and bankers acceptances of domestic banks and domestic offices of foreign banks.

5. Commercial paper (including asset-backed commercial paper) issued by domestic corporations.

6. Corporate notes and bonds.

7. Municipal securities. Taxable and tax-exempt municipal securities are permitted including; (i) of any state of the United States (ii) of any county, city, town, district, authority or other public body of the Commonwealth of Virginia, (iii) of any city, county, town or district situated in any one of the states of the United States provided, that they are the direct legal obligations of the city, county, town or district, and the city, county, town or district has power to levy taxes on the taxable real property therein for the payment of such obligations without limitation of rate or amount (per *Code of Virginia)*.

8. Asset-backed securities and mortgage backed securities including Commercial Mortgage-Backed Securities (CMBS) and Collateralized Mortgage Obligations (CMOs). This includes all private label mortgage related securities.

9. U.S. Dollar denominated obligations of sovereign governments and companies that are fully guaranteed by such sovereign governments.

10. Obligations issued, guaranteed or assumed by the International Bank for Reconstruction and Development "IBRD" (World Bank).

11. Any of the aforementioned that are issued under SEC Rule 144A exemption.

Credit Quality

The State Treasurer will in all cases place emphasis on securities of high credit quality and marketability. Holdings are subject to the following credit quality limitations at time of purchase.

1. Negotiable certificates of deposit, negotiable bank notes and bankers acceptances. Negotiable certificates of deposit, negotiable bank notes and bankers acceptances of domestic banks and domestic offices of foreign banks must have at least two of the following ratings: at least A-1/P-1/F-1 by Standard & Poor’s, Moody’s or Fitch respectively for maturities of one year or less as defined by SEC Rule 2a-7. The securities must have at least two of the following ratings: at least AA/Aa/AA by Standard & Poor's, Moody's or Fitch respectively for maturities exceeding one year and not exceeding five years.

2. Commercial paper. Commercial paper notes of domestic corporations must have at least two of the following ratings: at least A-1/P-1/F-1 by Standard & Poor's, Moody's or Fitch respectively and must also meet the criteria set forth in Section 2.2-4502 of the *Code of Virginia*.

3. Corporate notes and bonds. Corporate securities must have at least two of the following ratings: at least A-/A3/A- by Standard & Poor's, Moody's or Fitch respectively. However, each external investment manager may invest up to 15% of their portfolio in high quality corporate bonds with a rating of at least BBB or Baa2 by two rating agencies. One of the two qualifying ratings shall be at least BBB/Baa2/BBB by Standard & Poor's, Moody's or Fitch respectively.

4. Municipal securities. Taxable and tax-exempt municipal securities must be rated at least A3/A- or equivalent, by two nationally recognized rating agencies, one of which must be either Moody’s Investors Service, Standard & Poor’s, or Fitch.

5. Asset-backed securities and mortgage related securities. Asset-backed securities, mortgage-backed securities including all private label mortgage related-securities, Commercial Mortgage-Backed Securities (CMBS) and Collateralized Mortgage Obligations (CMOs) must be unconditionally guaranteed as to payment of principal and interest by the United States or any agency thereof or rated at least AAA or Aaa by two rating agencies. One of the two qualifying ratings shall be at least AAA/Aaa/AAA by Standard & Poor's, Moody's or Fitch respectively.

6. U.S. Dollar denominated obligations of sovereign governments. Sovereign debt must have received at least two of the following ratings: at least AAA/Aaa/AAA by Standard & Poor's, Moody's or Fitch respectively.

Downgraded Securities (Out-of-Compliance)

Should a security fail to meet the required credit quality limitations after purchase (i.e. credit downgrades), the external manager shall notify the Treasury Investment Staff and the Investment Consultant in writing promptly, but no later than 3 business days after the security fails to meet the credit quality limitations. Such security must then be sold within 30 calendar days, unless retention of the security is approved in writing by the Treasury Investment staff.

If a manager is allowed to retain an out-of-compliance security, the manager shall submit a monthly write-up to the Treasury Investment Staff and the Investment Consultant. The write-up must include the manager’s rationale (both qualitative and quantitative) on why they believe the security should continue to be considered for an exception.

Diversification

The State Treasurer will diversify investments by security type and by issuer and the following shall apply:

1. The Primary Liquidity Portfolio will be diversified with no more than 4% of the value of the fund invested in the securities of any single issuer. This limitation shall not apply to securities of the U.S. Government, or Agency thereof, U.S. Government sponsored corporation securities, securities fully insured by the U.S. Government or securities fully guaranteed by the U.S. Government

2. The maximum percentage of the Primary Liquidity Portfolio in each eligible security type is limited as follows:

U.S. Treasury and Agency Securities	100%
Non-Negotiable Certificates of Deposit under the Virginia Securities for Public Deposits Act "SPDA"	5%
Repurchase Agreements and/or Money Market Funds	50%
Negotiable Certificates of Deposit, Negotiable Bank Deposit Notes and Bankers Acceptances,	40%
Commercial Paper	35%
Corporate Notes	25%
Municipal Securities	10%
Obligations of Sovereign Governments	10%
International Bank for Reconstruction and Development "IBRD" (World Bank)	5%

3. Each individual portfolio within the Extended Duration and Credit Portfolio will be diversified with no more than 3% of the market value of the portfolio invested in the securities of any single issuer. This limitation shall not apply to securities of the U.S. Government, or Agency thereof, U.S. Government sponsored corporation securities, securities fully insured by the U.S. Government or securities fully guaranteed by the U.S. Government

4. The maximum percentage of each portfolio within the Extended Duration and Credit Portfolio in each eligible security type is limited as follows:

U.S. Treasury and Agency Securities	100%
Negotiable Certificates of Deposit and Negotiable Bank Deposit Notes	10%
Corporate Bonds/Notes	50%
Municipal Securities	10%
Asset-Backed Securities	
Short Duration Managers	20%
Intermediate & Extended Duration Managers	10%
Combined MBS, CMBS, CMO	
Short Duration Managers	
Total Mortgage-Backed Securities (MBS)	20%
Private Label Residential Mortgages	5%
Commercial Mortgage-Backed Securities (CMBS)	10%
Agency Collateralized Mortgage Obligations (CMOs)	10%

Intermediate & Long Duration Managers	
Total Mortgage-Backed Securities (MBS)	50%
Private Label Residential Mortgages	5%
Commercial Mortgage-Backed Securities (CMBS)	10%
Agency Collateralized Mortgage Obligations (CMOs)	10%
Obligations of Sovereign Governments	10%
Money Market Funds (excluding transitional cash)	10%
SEC Rule 144A Securities	10%

5. All money market assets in the Extended Duration and Credit Portfolio shall be invested in a high quality short-term investment fund designated by the Treasury Investment Staff and made available by the General Account Master Custodian.

Prohibited Investments or Actions

1. Any security not strictly authorized above must be approved in advance, in writing, by the Treasury Investment Staff.

2. Futures, options, options on futures, margin buying, leveraging, and commodities. Forward trades are permitted as long as they are procured during normal "when issued" periods for individual markets and as long as cash is reserved or a security will mature to cover the purchase.

3. Securities with the ability to defer interest and securities with the ability to convert to perpetual maturities.

4. Inverse floaters, IOs, POs, CDOs and Z-tranche securities.

Duration Limitations

To the extent necessary, the State Treasurer will attempt to match investments with anticipated cash requirements. Additional funds will be invested at maturities determined to be most beneficial to the portfolio. The following duration limitations shall apply:

1. The maximum duration for any single corporate security may not exceed 15 years. The maximum duration for any single asset-backed security, Private Label Residential Mortgage, Commercial Mortgage-Backed Securities CMBS and Private Label and Agency Collateralized Mortgage Obligations (CMOs) may not exceed five years. In the event the duration subsequently exceeds these limits, the external manager shall notify the Treasury Investment Staff who shall determine whether the security should be sold. The maximum maturity on any single sovereign government obligation, excluding the U.S., may not exceed five years at the time of settlement. The maximum maturity on any negotiable certificate of deposit and negotiable bank deposit note may not exceed five years. For the Primary Liquidity Portfolio, the maximum duration/maturity for any single security is five years.

2. The target duration (years) for the Primary Liquidity Portfolio and each Extended Duration and Credit Portfolio, are as follows:

Target Duration

Primary Liquidity Portfolio	1.0 year or less at the discretion of the CIO
Short Duration Portfolio	Benchmark
Intermediate Duration Portfolio	Benchmark
Long Duration Portfolio	Benchmark

3. Extended Duration and Credit Portfolio Managers minimum and maximum duration around the benchmark is limited to +-10%. The Asset Mix Policy and the target duration guidelines shall be reviewed at least annually by the Treasury Investment Staff, and modified as conditions warrant.

   For purposes of this section, duration shall be defined as the industry standard effective duration as calculated by Bloomberg or other well-established models available. In addition, for purposes of asset-backed securities and mortgage-backed securities, the prepayment assumptions to be used in the effective duration calculation will be the Bloomberg median prepayment assumptions or other well-established models available. In the absence of a median prepayment assumption available in Bloomberg, the assumption to be used shall be that which provides the greatest principal protection to the portfolio.

Securities Lending

Securities lending will be performed for the General Account portfolio under an approved agreement and separate Securities Lending Policies and Guidelines. Net lending income will be added to the General Account income.

General Account Benchmarks

Total General Account:	Composite weighted 55% Primary Liquidity Portfolio benchmark, 45% Extended Duration and Credit Portfolio benchmark
Primary Liquidity Portfolio:	9 month rolling average of Treasury One-year Constant Maturity
Extended Duration and Credit Portfolio:	Composite weighted 40% Short Duration benchmark, 40% Intermediate Duration benchmark, 20% Extended Duration benchmark
Short Duration Portfolio:	Bloomberg Capital 1-3 Year Government/Credit index
Intermediate Duration Portfolio:	85% Bloomberg Capital Intermediate Government/Credit Index, 15% Bloomberg Capital MBS Fixed Rate Index.
Long Duration Portfolio:	Composite weighted 83% Bloomberg Capital Aggregate Bond Index, 17% Bloomberg Capital Long Government/Credit Index.

STANDARDS OF INVESTMENT PERFORMANCE

Performance results of the Primary Liquidity Portfolio shall be dollar-weighted. Performance results for the Extended Duration and Credit Portfolio, and for each individual portfolio component, shall be time-weighted and measured net of investment management fees.

STANDARDS OF INVESTMENT PERFORMANCE

Primary Liquidity Portfolio	Exceed the Primary Liquidity Portfolio benchmark
Short Extended Duration and Credit Portfolio Managers	Exceed the Short Duration Portfolio benchmark.
	Underperformance should not exceed 35 basis points per annum over a rolling 4 quarter period.
Intermediate Extended Duration and Credit Portfolio Managers	Exceed the Intermediate Duration Portfolio benchmark.
	Underperformance should not exceed 50 basis points per annum over a rolling 4 quarter period.
Long Extended Duration and Credit Portfolio Managers	Exceed the Long Duration Portfolio benchmark.
	Underperformance should not exceed 50 basis points per annum over a rolling 4 quarter period.

REPORTING REQUIREMENTS

Treasury Responsibilities

The State Treasurer is charged with the responsibility of reporting to the Treasury Board on a monthly basis. These reports will include investment performance information, security holdings by manager, and security market values by manager. Additional information will be provided if deemed appropriate or if requested. Treasury Investment Staff will arrange for the Investment Consultant to present a quarterly performance review of each external investment portfolio including any out-of-compliance securities and any additional reporting deemed appropriate or requested. This Statement of Investment Policy & Goals shall be reviewed at least annually by the Treasury Investment Staff and, if appropriate, amended at such times as the Treasury Board shall determine.

Investment Manager Responsibilities

Each investment manager shall:

1. Within 30 days of each month end, reconcile all transactions, market values, security holdings, and cash flows with the General Account Master Custodian and provide a written report to the Custodian, with a copy to the Treasury of all areas of discrepancy or disagreement with the Master Custodian.

2. Report monthly performance against the benchmarks established for the account by the fifth business day of the following month.

3. Provide quantitative quarterly performance attribution relative to the appropriate benchmark. Provide quarterly reports concerning investment strategy, including quantitative performance attribution based on interest rate risk, sector allocation and security selection. Provide an economic and investment outlook by the end of the following month.

4. Provide a monthly report that lists each out-of-compliance security and detailed rationale for continuing to hold and the targeted outcome.

5. Provide a quarterly accounting of any professional staff turnover that would impact this relationship. Any material event that has an impact on the ownership of the investment organization or the management of this account must be reported immediately to Treasury Investment Staff.

6. Attend an annual meeting with Treasury and Investment Consultant Staff to review the performance of the portfolio, current outlook and the investment policies and goals of the Commonwealth of Virginia General Account Investment Fund.