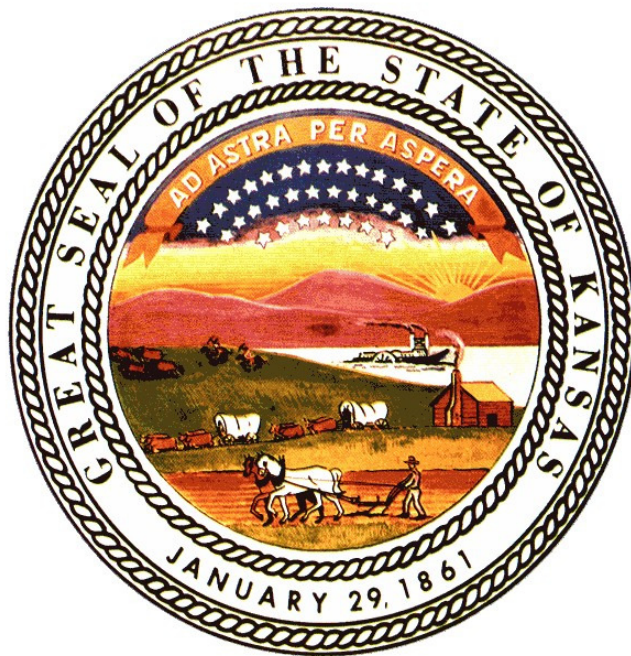


# INVESTMENT POLICY

## POOLED MONEY INVESTMENT PORTFOLIO



**State of Kansas**

**Pooled Money Investment Board**

*Most Recent Annual Approval: February 22, 2023*

## **I. POLICY STATEMENT**

It is the policy of the State of Kansas, Pooled Money Investment Board (hereinafter referred to as "Board" or "PMIB") to invest the Pooled Money Investment Portfolio (which consists of moneys held in State idle funds and the Municipal Investment Pool) in a manner which will provide a reasonable rate of return with the maximum security while meeting the daily cash flow demands of the State and conforming to all statutes governing the investment of state moneys. The standard of prudence to be used by investment officials shall be the prudent person standard, which shall be applied in the context of managing an overall portfolio. This standard states that investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived. Investment officers and Board members acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, if deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

## **II. SCOPE**

This investment policy applies to all moneys in the treasury of the state or coming lawfully into the possession of the treasurer, pursuant to K.S.A. 75-4201, et seq., including the Municipal Investment Pool. The moneys are accounted for in the Board's annual financial report to the Legislature and include investment account moneys, as specified in K.S.A. 75-4209, as amended. The board specifically manages the Pooled Money Investment Portfolio, Health Care Stabilization Fund, and Special Funds. The PMIB performs transaction execution, investment accounting, and provides investment advice for the Kansas Department of Transportation (KDOT). KDOT, however, retains responsibility for the investment decisions on the KDOT investments. The PMIB also administers the Municipal Investment Pool.

## **III. GENERAL OBJECTIVES**

The primary objectives, in priority order of the Board's investment activities, shall be as follows:

- A. **Safety.** Safety of principal is the foremost objective of the investment program. Investments by the Board shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. This includes mitigating credit and interest rate risk.

1. Credit Risk

The PMIB will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- a. Limiting investments to the safest types of securities

- b. Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisers with which the PMIB will do business
- c. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

2. Interest Rate Risk

The PMIB will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- a. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- b. Investing operating funds primarily in shorter-term securities.

**B. Liquidity.** The pooled money investment portfolio will remain sufficiently liquid to meet all operating requirements that might be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.

**C. Return on Investment.** The pooled money investment portfolio shall be designed with the objective of attaining a reasonable rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the cash flow characteristics of the portfolio. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

#### **IV. PERFORMANCE EVALUATION AND REPORTING**

Investment performance is continually monitored and evaluated by the Director of Investments using investment strategies developed under the investment principles referred to in K.A.R. 122-3-1 and this policy. Investment performance statistics and activity reports are generated by staff. The Director of Investments will provide summary reports on a monthly basis for the Board and annually for the Legislature.

The PMIB is currently utilizing two (2) portfolio benchmarks for the Pooled Money Investment Portfolio (PMIP). The S&P Rated GIP Index/General Purpose Taxable and an index comprised of fifty percent (50%) Federal Agency Discount Notes and fifty percent (50%) “high-grade” Commercial Paper. Although the S&P Rated GIP Index/General Purpose Taxable Index is comprised of various money-market instruments, approximately 40% of the securities included are not statutorily authorized investments for the PMIP. The Board’s desire to develop an index that more closely correlates with the overall composition of the investment portfolio led to the use of the second benchmark in late-FY2017.

From time-to-time, the Board may explore the use of other/additional performance measures.

A. Performance Evaluation Methodology

1. The value of the pooled money investment portfolio's holdings shall be calculated and reported in three ways: market value, par value, and amortized cost.
2. The earnings of the pooled money investment portfolio shall be calculated and reported based on generally accepted accounting principles for securities accounting.
3. The yield on the pooled money investment portfolio shall be calculated and reported as the yield to maturity. This calculation takes into account the face value (par), price paid, coupon rate and time to maturity.

B. Monthly Performance Analysis

The following reports shall be produced monthly and provided in the monthly report to the Board:

1. Month-end Investment Summary

The month-end investments will be summarized by type of investment. The report will include a summary of the amortized cost of the holdings in the pooled money investment portfolio as well as the market value and par value of those holdings.

2. Diversification/Distribution Summary

This report will outline the diversification and distribution by type of investment and weighted average term to maturity.

3. Other Reports

Other reports will include the following:

- a. Earned investment yield for period;
- b. Total return for the period;
- c. Interest earned for period;
- d. Maturity schedule by month;
- e. Evaluation of portfolio to selected benchmark(s); and
- f. Other reports as requested by the Board.

### C. Annual Reporting

Annually, a report shall be prepared summarizing the above for the most recent fiscal year. This report shall be submitted to the Legislature pursuant to statute at the beginning of each legislative session. Additionally, K.S.A. 75-37,152(a) requires an annual financial-compliance audit and K.S.A. 75-37,152(b) requires a written audit report (every two years) by an independent auditor on the financial management practices of the Pooled Money Investment Board.

## V. PERMITTED INVESTMENTS

- A. Certificates of deposit in Kansas banks as authorized by K.S.A. 75-4237, which are fully collateralized as required by K.S.A. 75-4218, as amended. The maximum dollar amount invested in Certificates of Deposit in any one bank shall never exceed
  - 1. 2.5% of the Pooled Money Investment Portfolio. If multiple offers of certificates of deposit are received for an amount that exceeds the total amount available for investment accounts that day for any maturity, awards of certificates of deposit shall be made available in ascending order from the smallest to the largest dollar amounts offered. The maximum dollar amount invested in Kansas Bank Certificates of Deposit shall never exceed 15 percent of the Pooled Money Investment Portfolio.
- B. Direct obligations of, or obligations that are insured as to principal and interest by, the United States of America or any agency thereof.
- C. Obligations and securities of United States sponsored enterprises that under federal law may be accepted as security for public funds. Moneys available for investment shall not be invested in mortgage-backed securities of such enterprises, which include the Government National Mortgage Association.
- D. Repurchase and reverse repurchase agreements with a bank or a primary government securities dealer that reports to the Market Reports Division of the Federal Reserve Bank of New York for direct obligations of, or obligations that are insured as to principal and interest by, the United States government or any agency thereof and obligations and securities of United States government-sponsored enterprises that under federal law may be accepted as security for public funds. Such repurchase and reverse repurchase agreements may be made only with banks and dealers that have entered into fully executed master repurchase agreements on file with the Board, and which have received a minimum short-term debt rating of A1/P1.
  - 1. Except as otherwise authorized by the Board, the market value of the securities underlying any repurchase agreement shall be maintained with a market value of at least 102% of the amount of the repurchase agreement. If the market value of the securities falls below 102% of the amount of the repurchase agreement, additional securities shall be required to attain full security unless otherwise authorized by the Board.

2. Loans pursuant to Legislative mandates. However, not more than the greater of 10% or \$140,000,000 of the state moneys shall be invested in this manner.
- E. Investments in SKILL act projects and bonds pursuant to K.S.A. 74-8920, and amendments thereto, and investments in any state agency bonds or bond projects.
- F. Commercial paper that does not exceed 270 days to maturity. Current Board policy requires this asset class to be rated in one of the two highest credit rating categories by both Standard & Poor's and Moody's Investors Service. (Ratings include S&P: A1+, A1; Moody's: P1)
- G. Corporate bonds that do not exceed two (2) years in maturity. Current Board policy requires this asset class to be rated in one of the two highest credit rating categories by both Standard & Poor's and Moody's Investors Service. (Ratings Include S&P: AAA, AA+, AA, AA-; Moody's: Aaa, Aa1, Aa2, Aa3)
- H. The Director of Investments shall not invest state moneys in the municipal investment pool fund created under K.S.A. 1997 Supp. 12-1677a.

## VI. COLLATERALIZATION

- A. Initial Placement. Moneys to be deposited in financial institutions shall not be released until the financial institution's board has executed and adopted the Security Agreement and required custodial agreements. Alternatively, moneys may be invested in financial institutions in the form of a repurchase agreement wherein the state takes delivery of the underlying securities.
- B. Collateralization. Deposits in depository institutions doing business in the state of Kansas shall be fully collateralized at all times. Acceptable collateral for state deposits as provided in K.S.A. 75-4201, as amended, shall be limited to:
  1. U.S. Treasury or U.S. Government agency securities, including only those mortgage-backed securities for which the issuing government agency has guaranteed the payment of principal and interest.
  2. Kansas municipal bonds that are general obligations of the municipality issuing the same.
  3. Revenue bonds of any agency or arm of the state of Kansas.
  4. Revenue bonds of any municipality within the state of Kansas except for the following: (A) bonds issued under the provisions of K.S.A. 12-1740 *et seq.*, and amendments thereto, unless such bonds are rated at least MIG-1 or Aa3 by Moody's Investors Service or AA- by Standard & Poor's Corp.; and (B) bonds secured by revenues of a utility that has been in operation for less than three years.

5. Temporary notes of any municipal corporation or quasi-municipal corporation within the state of Kansas that are general obligations of such corporation issuing the same.
  6. Warrants of any municipal corporation or quasi-municipal corporation within the state of Kansas, the issuance of which is authorized by the State Board of Tax Appeals and that are payable from the proceeds of a mandatory tax levy.
  7. Bonds of any municipal or quasi-municipal corporation of the state of Kansas that have been refunded in advance of their maturity and are fully secured as to payment of principal and interest thereon by deposit in trust, under escrow agreement with a bank, of direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America.
  8. A letter of credit issued by a United States sponsored enterprise that under federal law may be accepted as security for public funds.
    - a. The letter of credit (LOC) must be in the format acceptable to the Office of the State Treasurer.
    - b. The Kansas State Treasurer must be designated as the irrevocable and unconditional beneficiary of the letter of credit.
    - c. The issuer and the depository bank must notify the Office of the State Treasurer by certified or registered mail at least 45 days prior to cancellation or the non-renewal of a letter of credit;
    - d. The issuer may not provide letters of credit for any one-depository bank in an amount, which exceeds ten percent of the issuer's capital and surplus.
- C. Collateral shall be priced on a market value basis. Collateral requirement is defined as the outstanding amount of state funds deposited plus accrued interest thereon less federal deposit insurance coverage. The aggregate market value of collateral must equal:
1. 100% of the collateral requirement for the following collateral types having final maturities of five years or less: U.S. Treasury or Government agency securities, excluding Collateralized Mortgage Obligations (CMO's) or Mortgage-backed Securities (MBS's).
  2. 105% of the collateral requirement for all other acceptable collateral, except:
  3. Any eligible securities which do not trade actively (defined as securities for which there is no available price on Bloomberg) require Board approval prior to acceptance.

- D. Each depository bank depositing securities with a custodial bank shall enter into a written custodial agreement with the custodial bank and the Board for the safekeeping of the securities.
- E. If a depository bank fails to meet requirements established by the Board, the depository bank shall be offered the following options:
  - 1. Close the account and return to the Board all principal and accrued interest without penalty; or
  - 2. Convert the deposit to a repurchase agreement under terms acceptable to the Board.

## **VII. MAXIMUM MATURITIES**

Investment maturities shall be scheduled in consideration of projected cash flow needs, taking into account large routine expenditures, as well as considering sizeable blocks of anticipated revenue. Investment maturities of Pooled Money Investment Portfolio securities shall be limited as follows:

- A. Time deposits in Kansas banks shall not exceed four years.
- B. Linked deposit loans shall not exceed the maturity defined by statute; for the Agricultural Production Loan program, maturity shall not exceed eight years; for the Housing Loan program, maturity shall not exceed five years.
- C. Treasury or government agencies securities shall not exceed four years.
- D. Repurchase/reverse repurchase agreements shall not exceed four years or the maturity of the securities purchased/repurchased whichever is less.
- E. Commercial paper shall not exceed 270 days to maturity. Commercial paper combined with corporate bonds shall not exceed 60% of the total Pooled Money Investment Portfolio, and no more than 5% of that portfolio shall be invested in the commercial paper and corporate bonds of any single business entity.
- F. Corporate bonds shall not exceed two years to maturity.

## **VIII. DIVERSIFICATION**

- A. It is the policy of the Pooled Money Investment Board to diversify its investment portfolio so as to protect state moneys from material losses due to issuer defaults, market price changes, technical complications leading to temporary lack of liquidity, or other risks resulting from an over-concentration of assets in a specific maturity, a specific issuer, a specific geographical distribution, or a specific class of securities.



- B. Commercial paper combined with corporate bonds shall not exceed 60% of the total Pooled Money Investment Portfolio. No more than 5% of that portfolio shall be invested in any single business entity's commercial paper and corporate bonds.

## **IX. PORTFOLIO MANAGEMENT**

Following the primary objective of preservation of capital, investment portfolios shall be actively managed to take advantage of market opportunities. In so doing, negotiable securities may be sold prior to their maturity to provide liquid funds as needed for cash flow purposes, to enhance portfolio returns, or to restructure maturities to increase yield and/or decrease risk. In practice, however, it is generally a hold to maturity portfolio.

## **X. BROKERS/DEALERS**

Investment transactions shall only be conducted with qualified institutions, *i.e.* depository banks, any Federal Reserve Bank, primary government securities dealers, or broker-dealers engaged in the business of selling government securities that are registered in compliance with Section 15 or 15C of the Securities Exchange Act of 1934 and registered pursuant to K.S.A. 17-1254, as amended, and direct dealers and issuers of qualified commercial paper. The following shall also be required:

- A. A list will be maintained of financial institutions authorized to provide investment services. In addition, a list also will be maintained of approved security broker/dealers selected by credit worthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who are eligible to become qualified for investment transactions will be required to supply the following as appropriate:

1. Audited financial statements
  2. Proof of Financial Industry Regulatory Authority (FINRA) certification
  3. Proof of State registration
  4. Business resume of the individual assigned to our account
  5. Certification of having received the PMIB's investment policy and supporting operational documents
- B. An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Director of Investments or his/her designee.

## **XI. DELEGATION OF AUTHORITY AND INTERNAL CONTROLS**

The authority to establish policies for the management of the assets held by the PMIB, with the exception of KDOT investments, is vested in the PMIB in K.S.A. 75-4221a. Oversight of the PMIB staff in conducting its daily functions, duties, and responsibilities is delegated to the Director of Investments. Day-to-day management responsibility for the investment program is hereby delegated to the Director of Investments, who is responsible for investment decisions and activities under the direction of the PMIB. Approval of bank designations for State agency bank accounts as set out in K.S.A. 75-4214, with balances under \$250,000, is delegated to the Director of Investments. The Director of Investments shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Investments. The Director of Investments shall be responsible for all transactions undertaken and shall establish a system of internal controls to regulate the activities of subordinate officials.

In the development of the system of internal controls, consideration shall be given to documentation of strategies and transactions, techniques for avoiding collusion, separation of functions, delegation of authority and limitations of action, custodial safekeeping, and avoidance of bearer-form securities.

## **XII. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS**

Each security transaction, other than directly issued instruments, securities in syndicate or specially bid or offered securities, shall be executed through a competitive process involving solicitation of bids or offers from qualified institutions as set in K.A.R. 122-3-5.

When purchasing a security, the offer that provides the highest anticipated current and future rate of return and meets the investment objectives of the portfolio shall be accepted.

When selling a security, the bid, which generates the highest sales price, shall be accepted.

## **XIII. STANDARDS OF CARE**

### **A. Prudent Person.**

Investments shall be made within the limitations of K.S.A. 75-4209 and shall be made with judgment and care, under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering first the safety and liquidity of capital and next the probable income to be derived.

B. Conflicts of Interest.

PMIB members, officers, and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. All such investment officials shall disclose to the Board any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that are related to the performance of the State's portfolio. In accordance with K.S.A. 75-4222, a unanimous vote of the Board shall be required to award a state bank account to any bank in which any member of the Board is interested as a stockholder or officer. All investment officials shall subordinate their personal investment transactions to those of the State, particularly with regard to the timing of purchases and sales.

**XIV. QUALIFICATIONS OF BOARD MEMBERS AND INVESTMENT OFFICIALS**

A. Board Members

All members appointed to the Board shall have at least 10 years of direct work experience in the areas of finance, accounting, or management of investments or shall have at least a baccalaureate degree from an accredited college or university and at least five years of direct work experience in the areas of finance, accounting, or management of investments.

B. Director of Investments

A director of investments shall be appointed by the Board and shall be responsible for planning, directing, and managing the state moneys investment programs under the direction of the Board in accordance with applicable statutes, rules and regulations, and policies of the Board.

The director of investments shall meet qualifications established by the Board with respect to the following:

1. Education and training in a finance-related field;
2. Experience as an investment or trust officer for a financial institution, association or corporation, or experience in a finance-related field;
3. Experience in money market and fixed-income investments; and
4. Supervisory experience.

**V. SAFEKEEPING AND CUSTODY**

All security transactions, including collateral for repurchase agreements, entered into by PMIB shall be conducted on a delivery versus payment basis. Securities will be held by the Kansas State Treasurer or a third-party custodian designated by the State Treasurer and evidenced by safekeeping receipts.

**XVI. LIQUIDITY PROVIDER**

PMIB may serve as liquidity provider on bonds issued by authorized state agencies. Such contingent obligations shall be limited to 15% of state funds held in the pooled money investment portfolio.

### Exhibit A

Security Type	Minimum Rating S&P/ Moody's	Maximum Maturity	Maximum % of Portfolio	Single Issuer % of the portfolio
U.S Treasuries		4 Years		
US Government Agencies		4 Years		
Repos/Reverse Repos	A1/P1	4 Years		
CD's / Bank deposits		4 Years	15%	2.50%
Commercial Paper	A1/P1	270 Days	60%*	5%*
Corporate Bonds	AA+/Aa1	2 Years	60%*	5%*

\* aggregated Commercial Paper and Corporate Bonds will not exceed 60% concentration in the portfolio, and single issuer concentration will not exceed more than 5% of the entire portfolio.