Investment Policy Statement (IPS)

2018
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General Policy

Statutory Authority

The State Treasurer is the Chief Executive Officer of the 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, as amended by HB 18-1402 and signed by the Governor of the State of Colorado on June 6, 2018, 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.

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 also 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 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 Treasury's primary objectives for managing its investment portfolios are detailed in statute (C.R.S. §24-36-113, as amended): 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 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 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 primary 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 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 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 dealers must have a minimum net capital of fifty million dollars, must be self-clearing or 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 the firm must not have a qualification of the auditor's opinion or a contingent liability that could materially affect the capital of the firm. 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 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 Treasury website (https://www.colorado.gov/treasury) with a list of holdings by portfolio.

Internal Controls

The 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 Treasury. 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.

Safekeeping and Custody

All security transactions will be conducted on a delivery versus payment basis for the account of the Treasurer. Written confirmation by the broker/dealer and the Treasury's bank is required for every trade. Securities will be held by the Treasurer or by a third-party custodian designated by the 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 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.

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, Colorado State University System, 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 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 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 participant to receive interest and investment earnings, these gains or losses are prorated according to the average of well over 800 of the participating accounts daily balances during the month

The pooling process provides administrative efficiency and increased yield and liquidity due to economies of scale provided by the participation of well over 800 state agency account holders. The TPOOL FUND is comprised of two broad sub-portfolios created and managed separately for internal management efficiencies based on two different investment strategies used : The TPool Cash (TCASH) portfolio and the TPool Bond portfolio (TBOND). These two portfolios of the total TPOOL Fund are carefully coordinated to provide a stable base to meet the liquidity requirements of the TPOOL participants. The pool participants can invest directly only in the TPOOL Fund and have no option to select either the TCASH or TBOND portfolio.

The TCASH portfolio serves as the first source of liquidity for the State. It functions essentially as an interest-bearing checking account from which all of the State's daily expenditures are paid and in to which revenues are deposited. Money market securities are purchased to match dates of large cash outflows. The 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. Under this statute, the Treasury operates the Colorado Time Deposit Program that is managed separately from other investments in the pool because of its limited liquidity. All investments in TCASH have a maturity of less than one year.

The TBOND portfolio investment funds are not expected to be expended near term. The investment objective of this portfolio is to provide backup liquidity and safety by taking a moderate amount of risk and provide steady higher cash flows to meet growing income needs. Investments are made to a maximum maturity of five years in securities with investment grade credit ratings.

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 one-year Constant Maturity Index as published by the Federal Reserve and reviewed over a three-year time period.

The total return benchmark for the TPOOL is Bloomberg Barclays US Aggregate 1-3 year Total Return Index.

Trades and Exchanges

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 earned. Such trades may be executed to raise cash and enhance realized cash flows by actively managing maturity/duration, sector mix, and credit quality 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 need to be corrected within 3 months subject to favorable market conditions.

TPOOL Fund Investment Guidelines

The overall TPOOL Fund investment guidelines are applicable in the management of the TCASH and TBOND portfolios.

Maturity/Duration

The Weighted Average Maturity/Effective Duration: 1-3 years

Diversification Limits % of the TPOOL

TCASH Portfolio size: 30%-60%

TBOND Portfolio size: 40%-70%

Cash Equivalents under 1 year 60%

Corporates 70%

Government/Sovereign/Supranational 10%-100%

Securitized 30%

Taxable Municipals 10%

Credit Quality Issuer Limits

AAA-AA	5%
A	4%
Baa	3%

Issue Limits % of the TPOOL

Corporate/Commercial/Securitized 2%

National/Supranational 4%

TCASH Portfolio Investment Guidelines

Management

The TCASH portfolio is managed separately from the TBOND portfolio for management efficiencies and subject to the overall investment guidelines of the TPOOL.

Maturity

The maximum maturity for TCASH portfolio is one year.

Diversification

The specific standards for sector allocation, maturity, instrument, issue/issuer, and quality follow. All limitations are based on current market values.

Sectors	Min/Target/Max %
US Treasury/Agency/Government Guaranteed/Sovereign/ National/Supranational	0/50/100
Certificate of Deposit (Time Deposit Program)	0/0/5
Commercial Paper/Domestic and Yankee Corporate	0/20/70
Money Market Funds	0/10/70

US Treasury/Agency/Government-Guaranteed/National/Supranational: securities may be purchased without limitation and with a maximum maturity of one year.

Agency discount notes and term bonds may be purchased with a maximum maturity of one year.

Commercial Paper/Domestic and Yankee Corporate : The issuer or the issuer's parent company must have total equity exceeding $1 billion.

An 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 registered 3(a)3 144A securities are not permitted.

Time Deposit Program: Certificates of Deposit (CDs) are purchased by the Treasury with maturities of three months, six months and one year.

From time to time, the State's liquidity may require the CD maturities to be altered, the size of the program to be limited, or the program to be temporarily suspended.

CD issuers must be either a national/state commercial bank doing business in this State (C.R.S. §24-36-109(1)), or a federal/state-chartered savings & loan association having its principal office in this State (C.R.S. §24-36-112(1)). The CD issuers must also be an eligible public depository, per the State Division of Banking, having a combination of federal deposit insurance and properly pledged collateral equal to at least 102% of public deposits plus FDIC insurance. Deposits with any one issuer will be limited to 80% of the current four-quarter average of equity capital with a maximum deposit of $20 million per bank and/or savings and loan association.

Banks participating in a brokered deposit program, through which the FDIC insures the entire CD principal and interest amount, are otherwise expected to comply with all requirements of the state time deposit program.

No more than 5% of the portfolio will be held in the Time Deposit or brokered deposit programs.

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 70% of the portfolio will be held in money market funds, and no more than $300 million will be held in any one fund.

Performance Evaluation

The yield evaluation benchmark for the TPool Cash portfolio is the 12-month moving average of the discounted yield of the 30-day Treasury bill, reviewed annually.

The total return benchmark for the TCASH portfolio is Bloomberg/Barclay's Short-Term Index 1-3 months.

TBOND Portfolio Investment Guidelines

Management

The TBOND portfolio is managed separately from the TCASH portfolio for management efficiencies and subject to the overall investment guidelines of the TPOOL.

Maturity/Duration

The maximum maturity for any TBOND investment shall not exceed five years. The option-adjusted duration (Effective Duration) of the TBOND portfolio shall be normally within +/- 20% of the Bloomberg Barclays US Government/Credit 1-5 year Index with no limitation on the minimum duration, subject to operating cash flow requirements.

Diversification

All limitations are based on current market values.

Sectors	Min/Target/Max %
US Treasury/Agency/Government Guaranteed/Sovereign/ National/Supranational	0/50/100
Agency CMO	0/0/30
Asset-Backed	0/15/30
Domestic Corporate Yankees	0/40/80 0/0/10
Taxable Municipals	0/0/10

US Treasury/Agency/Government-Guaranteed/Supranational: No security will be bought with a maturity exceeding five years. .

Agency Collateralized Mortgage Obligation (CMO): Purchases of mortgage-backed CMOs collateralized by FNMA, FHLMC, and GNMA will be limited to those issues whose cash flows are modeled on the Bloomberg mortgage analysis system. The average life will not exceed five years at zero percent prepayment speed assumption.

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.

The expected maturity may not exceed five years.

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, 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 notes will be purchased with a maturity exceeding five years.

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

Performance Evaluation

The yield evaluation benchmark for the TBOND portfolio will be 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 benchmark for the TBOND portfolio is Bloomberg Barclays US Government/Credit 1-5 year Index.

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 are 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 and (III) (A) 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.

The principal of the UPTF is exempt from TABOR; the interest is not exempt from TABOR.

Trades and Exchanges

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. Such trades may be executed to raise cash and enhance realized cash flows by actively managing maturity/duration, sector mix, and credit quality 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 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	0/50/60
Yankees	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.

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, 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 50% of the portfolio will be held in Corporate/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 organization 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 Bloomberg Barclays US Aggregate Total Return Index.

Broker/Dealer Notice

The Colorado State Treasurer hereby notifies the approved broker-dealers conducting investment transactions with the Colorado Department of the Treasury that they have reviewed and recognized the Investment Policy Statement displayed on the Colorado Department of the Treasury website. It is presumed that the approved broker-dealers have implemented reasonable procedures and internal controls in place to preclude imprudent and fraudulent investment activities arising out of investment transactions conducted between the Colorado Department of the Treasury and 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.

Colorado State Treasurer's Acceptance

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

Walker R. Stapleton
Colorado State Treasurer

Accepted
Date: 9/28/2018