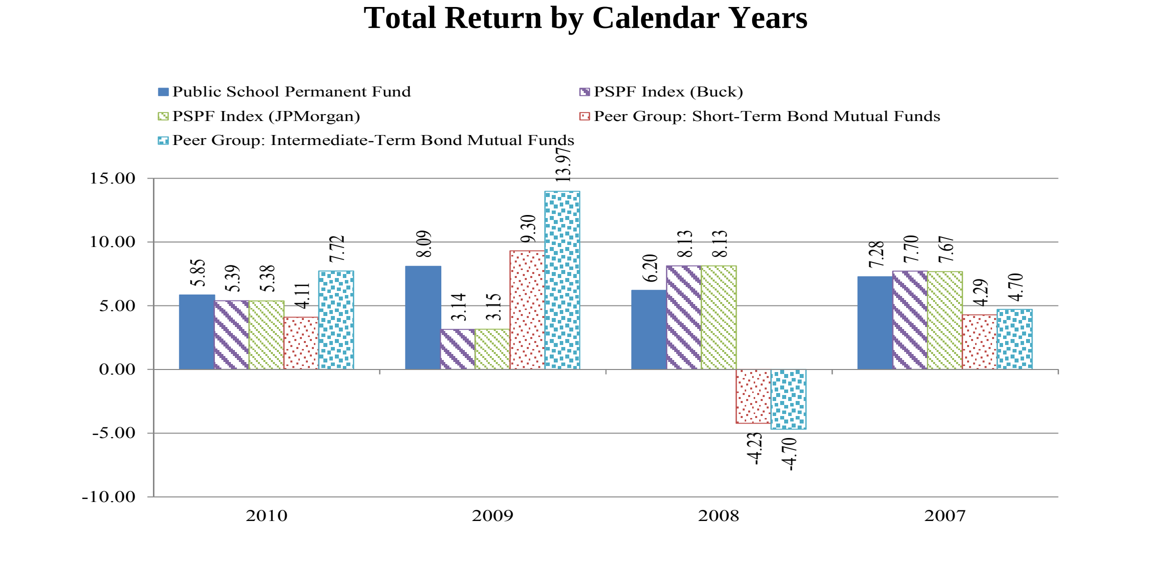
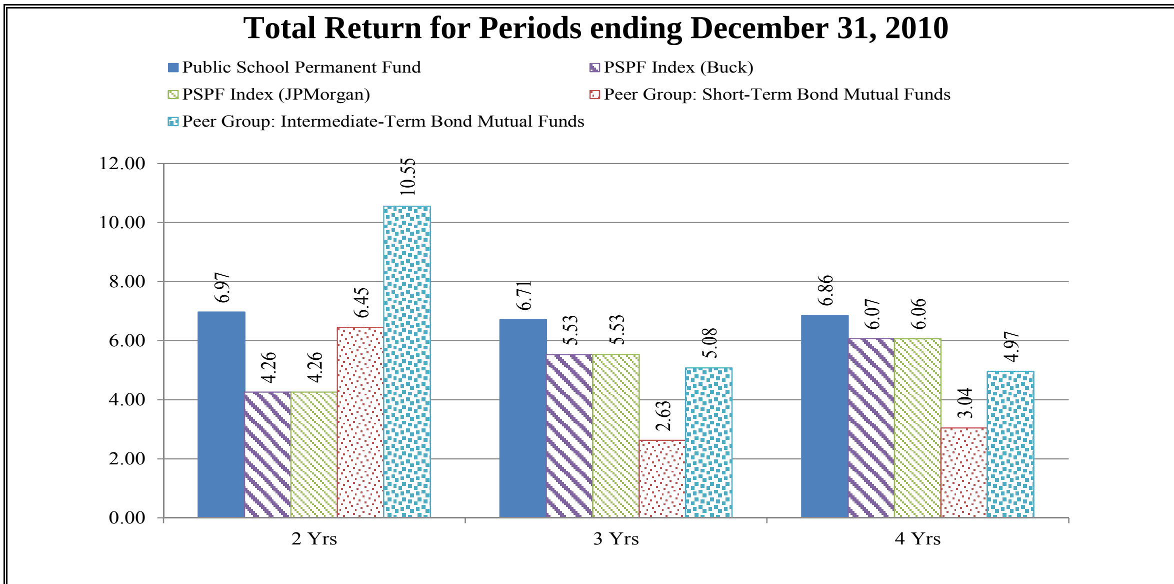
Public School Permanent Fund



Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury Earnings and Yield Statement.

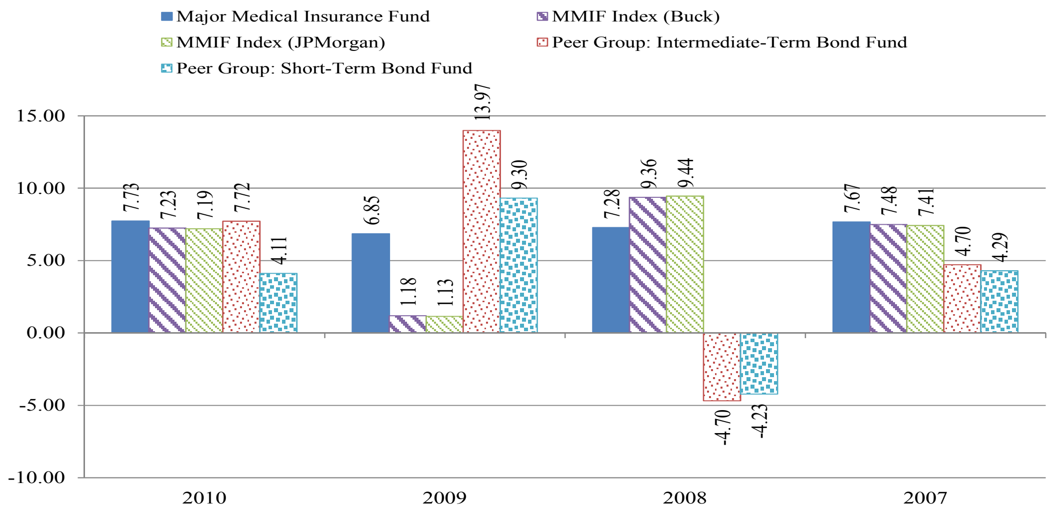
The Public School Permanent Fund was steadier than the index and similar mutual funds (above). In the 2008 "flight to quality," U.S. treasuries performed uncharacteristically well. Because the Public School Permanent Fund index had a 30 percent higher allocation to treasuries than the Public School Permanent Fund portfolio, the index outperformed the portfolio. However, the Public School Permanent Fund beat the index and similar mutual funds over the 4-year period as a whole (below).



Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury Earnings and Yield Statement.

Major Medical Insurance Fund

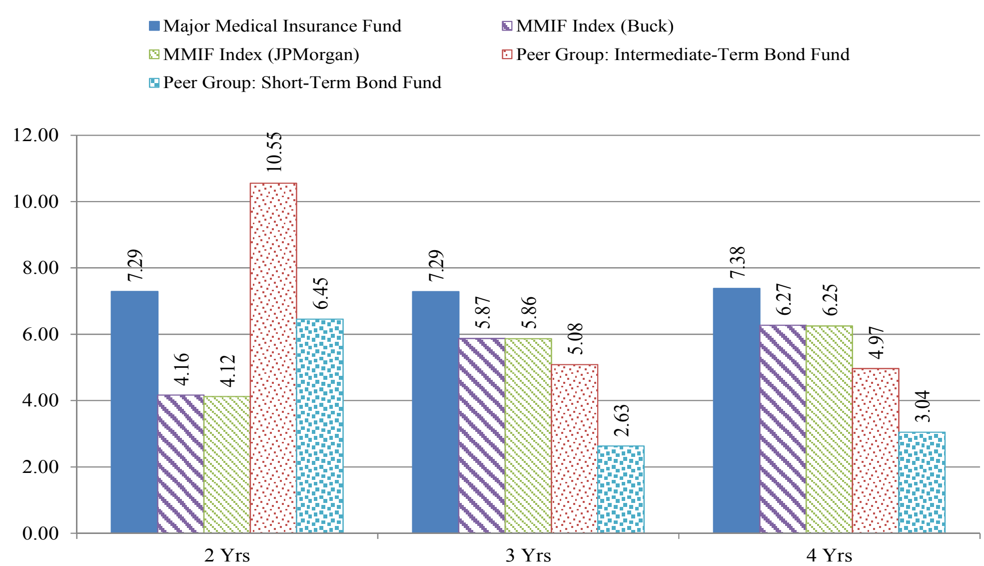
Total Return by Calendar Years



Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury Earnings and Yield Statement.

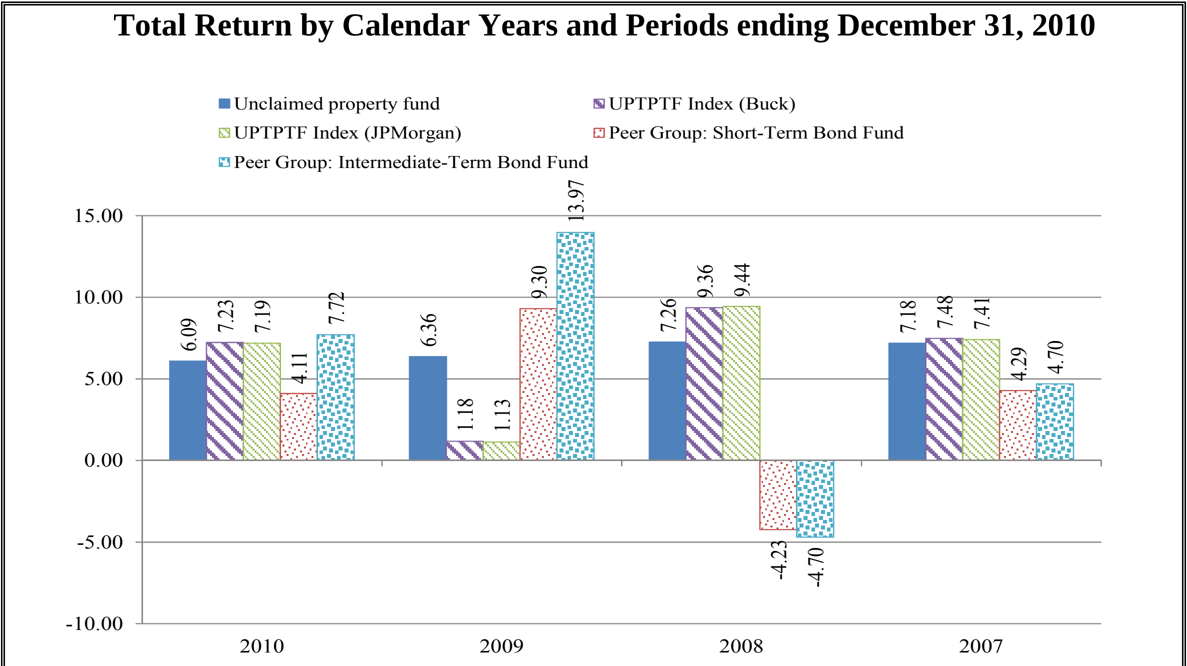
Major Medical Insurance Fund was steadier than the index and similar mutual funds (above). In addition, the Major Medical Insurance Fund beat the benchmark and similar mutual funds over the 4-year period (below).

Total Return for Periods ending December 31, 2010



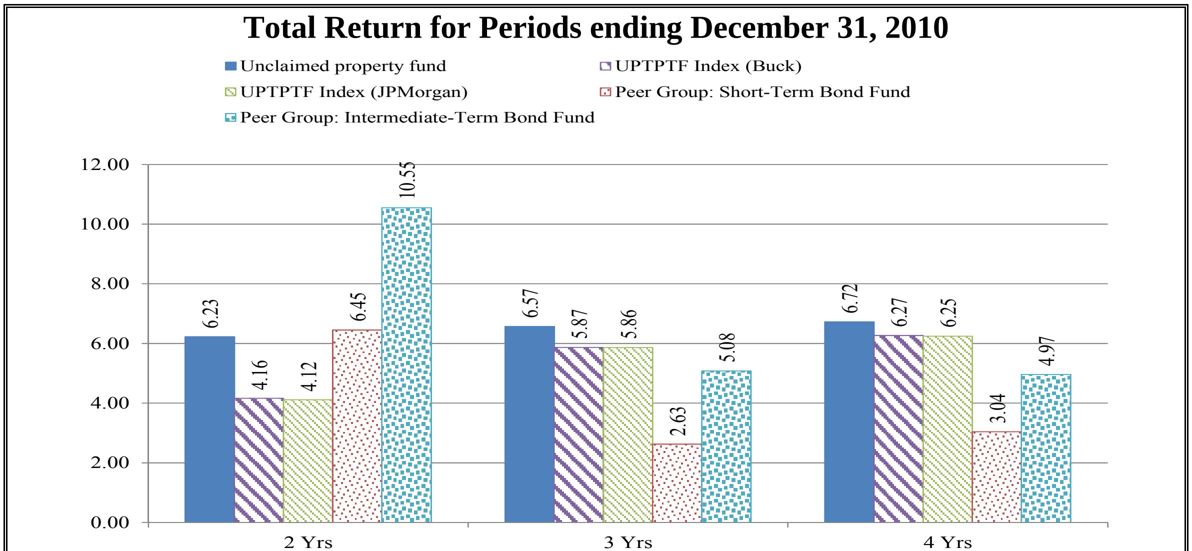
Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury Earnings and Yield Statement.

Unclaimed Property Tourism Promotion Trust Fund



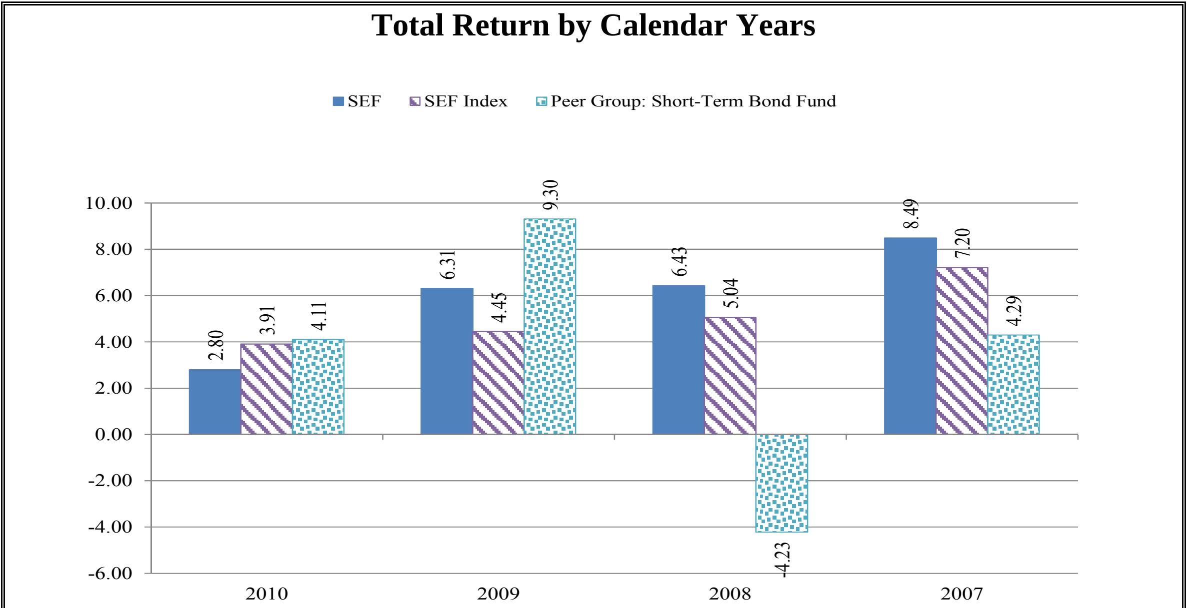
Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury Earnings and Yield Statement.

Unclaimed Property Tourism Promotion Trust Fund was steadier than the index and similar mutual funds (above). In addition, the Unclaimed Property Tourism Promotion Trust Fund beat the benchmark and similar mutual funds over the 4-year period (below).



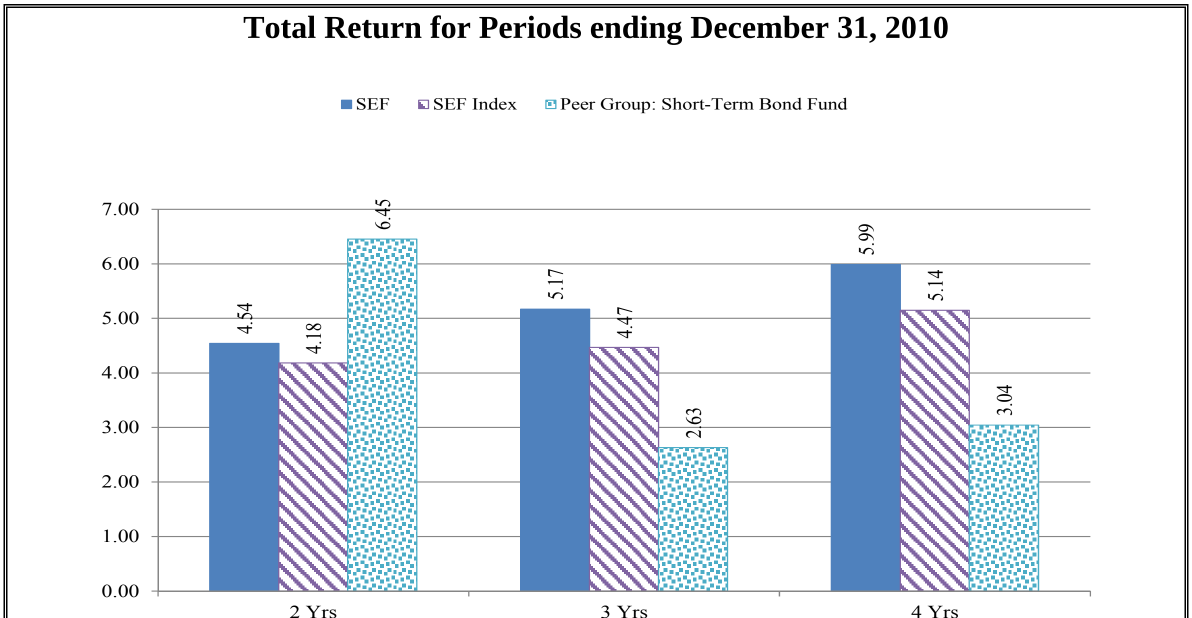
Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury Earnings and Yield Statement.

State Education Fund



Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury Earnings and Yield Statement.

The State Education Fund beat its index in 3 of 4 years (above). In addition, the State Education Fund outperformed the benchmark and similar mutual funds over the entire 4-year period (below).



Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury Earnings and Yield Statement.

Investment Policy and Internal Controls

This section of the report covers our review of the Treasury's investment objectives, policies, and internal controls over investments. The Treasury's investment objectives are outlined in Section 24-36-113, C.R.S. Statute specifically requires that the Treasury's investments meet acceptable standards of legality, safety, liquidity, and yield. The primary method that the State Treasurer uses to ensure that the investments meet these requirements is the Treasurer's Investment Policy Statement. The Investment Policy Statement is a formal document that defines the process used to manage the portfolios of the Treasury Investment Program. The Investment Policy Statement outlines the appropriate mix of investments and asset holdings, and also communicates the roles and responsibilities of the State Treasurer, the Investment Officers, and the Advisory Committee with respect to managing the State's investment portfolios. The State Treasurer is responsible for approving the Investment Policy Statement, and the Investment Officers are required to adhere to the terms of the Investment Policy Statement when carrying out their duties in managing the State's investment program portfolio.

We reviewed the Treasury's Investment Policy Statement and the Treasury's compliance with the Investment Policy Statement with respect to the Treasury's cash management practices, investment asset mix, and role of the Advisory Committee. We found that the Treasury's cash management practices and performance comply with the requirements identified in the Treasury Investment Policy Statement and, therefore, we make no recommendations in this area. However, we did find that the Treasury needs to improve policy and controls governing its investments in three areas: (1) improving review and approval processes for departures from the Investment Policy Statement, (2) eliminating certain statutory limitations on investments, and (3) improving monitoring tools for evaluating the quality of its investments. In the sections below, we provide a brief description of our work related to the Treasury's cash management practices and also discuss our recommendations for improving investment policy and controls.

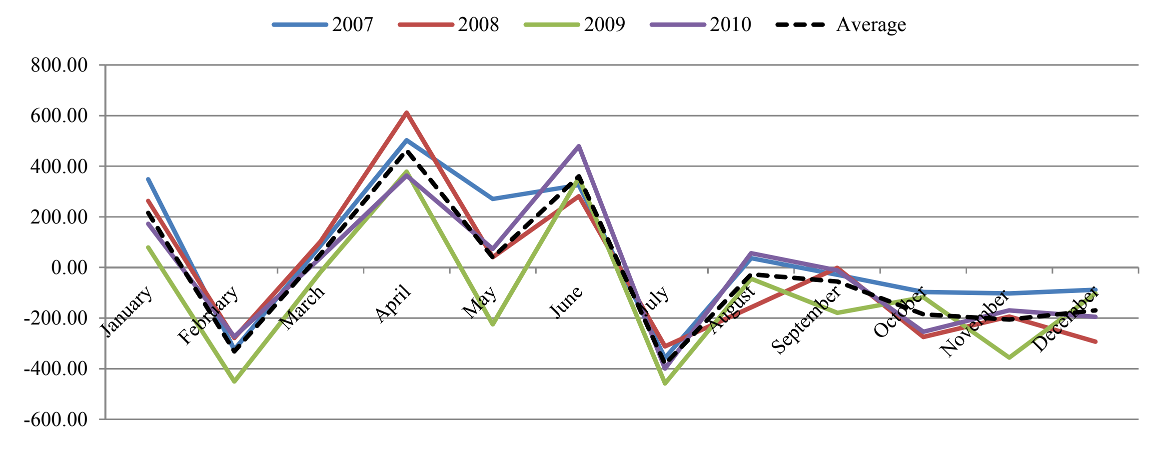
Cash Management

The Treasury's Investment Policy Statement requires that the Treasury maintain sufficient liquidity to fund anticipated state agency spending needs. The investment policy requires a $300 million minimum balance in the cash pool, although in practice the minimum desired cushion is closer to $600 million. The lowest cash balance of the cash pool during the period was $1.5 billion, well above both minimums.

The table below shows the net flow of cash from the Treasury for each month of the four-year period. We found that Treasury's practices adequately ensure proper and effective cash management, and that the flow of funds into and out of the Treasury was predictable—allowing for a stable cash management program.

These cash flows form a predictable pattern from year-to-year, as seen in the chart below. Receipts occur in January, April, and June while other months generally see outflows.

Cash Flow
Calendar Years 2007 -2010 and Average



Source: Buck Global Investment Advisory Group analysis of Treasury cash flow statements, 2007 to 2010.

Adherence to the Investment Policy Statement

As previously discussed, the Treasury's Investment Policy Statement establishes certain parameters on the types of securities the State Treasurer and Investment Officers are allowed to invest in as well as the mix of assets that the Treasury Investment Program should have in each type of security. These parameters are established by the State Treasurer to carry out his or her fiduciary responsibility and ensure that the statutory objectives of legality, safety, liquidity, and yield are met for the Treasury Investment Program. The State Treasurer authorizes the Investment Officers to take all investment action "necessary and desirable" to achieve Treasury objectives, and the Investment Officers understand that they are to conduct their investment of Treasury securities in accordance with the Investment Policy Statement.

The table below shows the limits established by the Investment Policy Statement for each type of security and for each of the five funds in the portfolio. The table also shows the diversification guidelines for Calendar Year 2010. The tables on the subsequent pages describe the maximum or minimum allocation actually experienced during the period of review and indicate if that allocation was a deviation from investment policy. In addition, the asset mix is shown over time throughout the period Calendar Years 2007 through 2010 for each fund.

During the period Calendar Years 2007 through 2010, we found two instances in which the Treasury did not invest funds in accordance with the Investment Policy Statement. First, while the Investment Policy Statement requires a 10 percent investment in Treasury securities, Treasury Department staff invested only 7.2 percent of the Combined Treasury Pool in Treasury securities in 2009. Second, while the Investment Policy Statement requires that the Unclaimed Property Tourism Promotion Trust Fund invest no more than 30 percent of its investments in the Treasury Pool, in 2010, Treasury Department staff invested 59 percent of investments in the Treasury Pool, exceeding the policy limit by nearly double.

Colorado Department of the Treasury
Diversification Limitations

Security Type	T-Pool Combined	Public School Permanent Fund	Major Medical Insurance Fund	Unclaimed Property Tourism Promotion Trust Fund	State Education Fund
	Percentage Min/ Max	**Percentage Min/ Max**	**Percentage Min/ Max**	**Percentage Min/ Max**	**Percentage Min/ Max**
U.S. Treasury Securities	10% to 100%	N/A	N/A	N/A	N/A
U.S. Agency Securities	Up to 90%	N/A	N/A	N/A	N/A
Treasury/ Agency Combined	N/A	20% to 100%	20% to 100%	20% to 100%	20% to 100%
Misc. Government Guaranteed	Up to 50%	Up to 50%	Up to 50%	Up to 50%	Up to 50%
Mortgage Backed Securities	N/A	Up to 50%	Up to 50%	Up to 50%	Up to 50%
Domestic Corporate Notes/Bonds	N/A	Up to 20%	Up to 35%	Up to 50%	Up to 20%
Asset-Backed Securities	Up to 25%	Up to 30%	Up to 30%	Up to 30%	Up to 30%
Repurchase Agreements	Up to 50%	Up to 50%	Up to 50%	Up to 50%	Up to 50%
Taxable Municipal Bonds	N/A	Up to 15%	N/A	N/A	N/A
T-Pool	N/A	Up to 20%	Up to 30%	Up to 30%	Up to 100%
Bankers Acceptances, Commercial Paper, Bank and Corporate Notes	Up to 65%	Up to 20%	Up to 20%	Up to 20%	Up to 20%
Agency Collateralized Mortgage Obligations (CMOs), with avg. life <3 years	Up to 15%	N/A	N/A	N/A	N/A
Certificates of Deposit	Up to 5%	N/A	N/A	N/A	N/A
Money Market Funds	Up to 35%	N/A	N/A	N/A	N/A

Source: Buck Global Investment Advisors analysis of the Colorado Department of the Treasury's 2010 Investment Policy Statement.

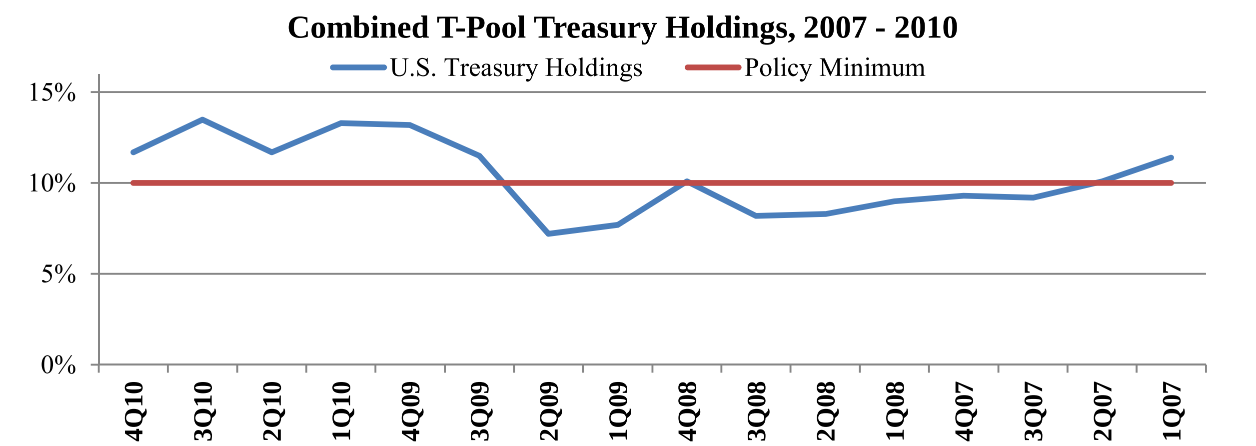
T-Cash and T-Pool Combined

Treasury Pool

Purpose of Rule	Policy Rule	Maximum or Minimum	Policy Deviation?
Liquidity	Minimum of $300m with <1yr maturity	$1,542m	No
Diversification	less than 90% in Agencies	84.50%	No
Diversification	less than 5% in Certificates of Deposit	3.40%	No
Diversification	less than 35% in Money Market	22.80%	No
Diversification	**Treasury within 10-100 percent**	**7.20%**	**Yes**
Diversification	Agency less than 90%	51.80%	No
Diversification	Agency CMO less than 15%	10.40%	No
Diversification	Misc. Gov't less than 50%	not more than 44.8%	No
Diversification	Cerificate of Deposit less than 5%	1.40%	No
Diversification	Asset backed less than 25%	16.50%	No
Diversification	Repurchase less than 50%		No
Diversification	BA, CP, Bank and Corporate Notes less than 65%	not more than 62.8%	No
Diversification	Money Market less than 35%	8.40%	No

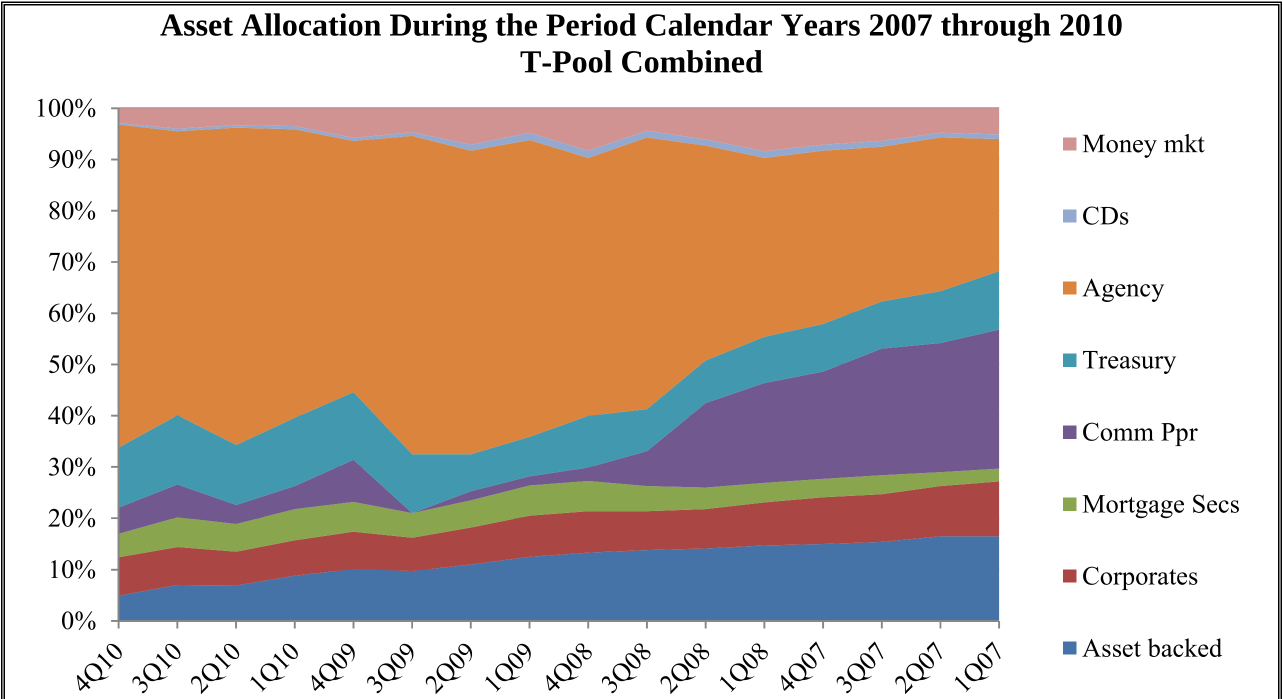
Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury's 2010 Investment Policy.

For the period Calendar Years 2007 to 2009, the allocation of the Treasury Pool to treasury securities fell below the 10 percent limit defined by the Investment Policy Statement.



Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury's quarterly performance reports for Calendar Years 2007 through 2010.

The T-Pool Combined asset allocation (shown in the graph below) during the period 2007 through 2010 is marked by a shift from commercial paper and asset-backed securities into government agency securities.



Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury's quarterly performance reports for Calendar Years 2007 through 2010.

Public School Permanent Fund

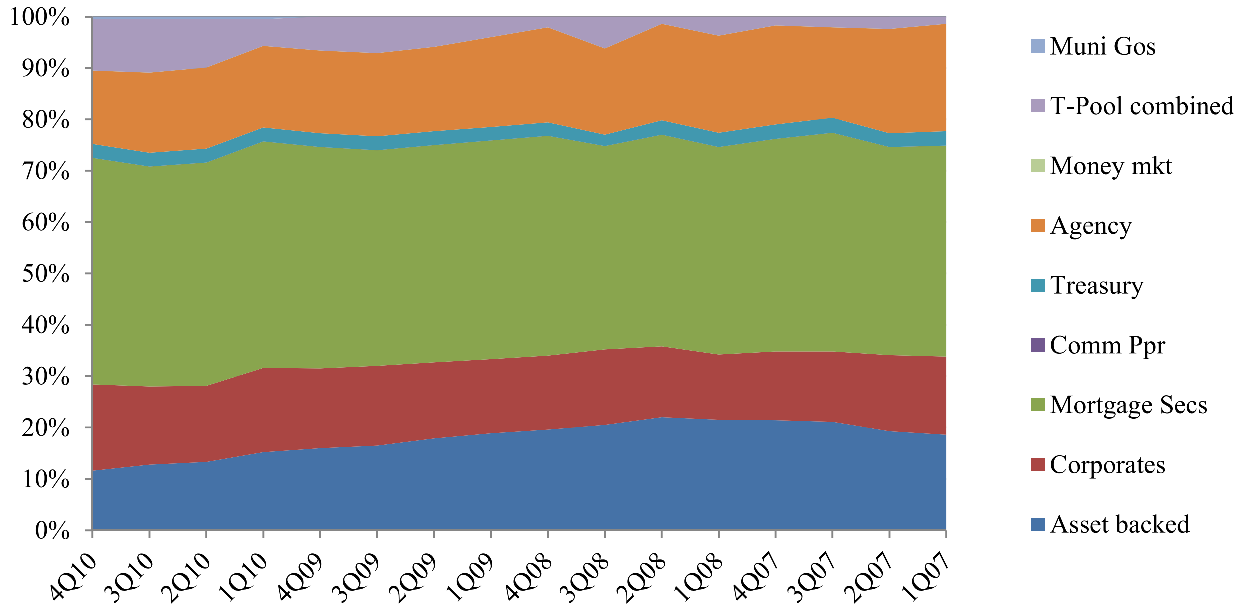
Purpose of Rule	Policy Rule	Maximum or Minimum	Policy Deviation?
Diversification	Treasury/Agency within 20-100 percent	17% (21.3% counting TPool allocation)	No
Diversification	Corporate less than 20%	16.80%	No
Diversification	Mortgage less than 50%	44.10%	No
Diversification	Misc. Gov't less than 50%	not more than 44.8%	No
Diversification	Cerificate of Deposit less than 5%	0.00%	No
Diversification	Asset backed less than 25%	22.00%	No
Diversification	BAs and Bank Notes less than 20%	not more than 3.2%	No
Diversification	Municipal bonds less than 15%	0.50%	No
Diversification	Tpool less than 20%	10.40%	No

Source: Buck Global Investment Advisors analysis of the Colorado Department of the Treasury's 2010 Investment Policy.

Allocations of the Public School Permanent Fund remained within policy limits during the period Calendar Years 2007 through 2010.

The Public School Permanent Fund asset allocation (shown in the table below) during the period 2007 through 2010 was stable and relatively unchanging, except for a slight decline in asset-backed securities, as these types of securities were less available in the market during this period.

Asset Allocation During the Period Calendar Years 2007 through 2010
Public School Permanent Fund



Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury's quarterly performance reports for Calendar Years 2007 through 2010.

Major Medical Insurance Fund

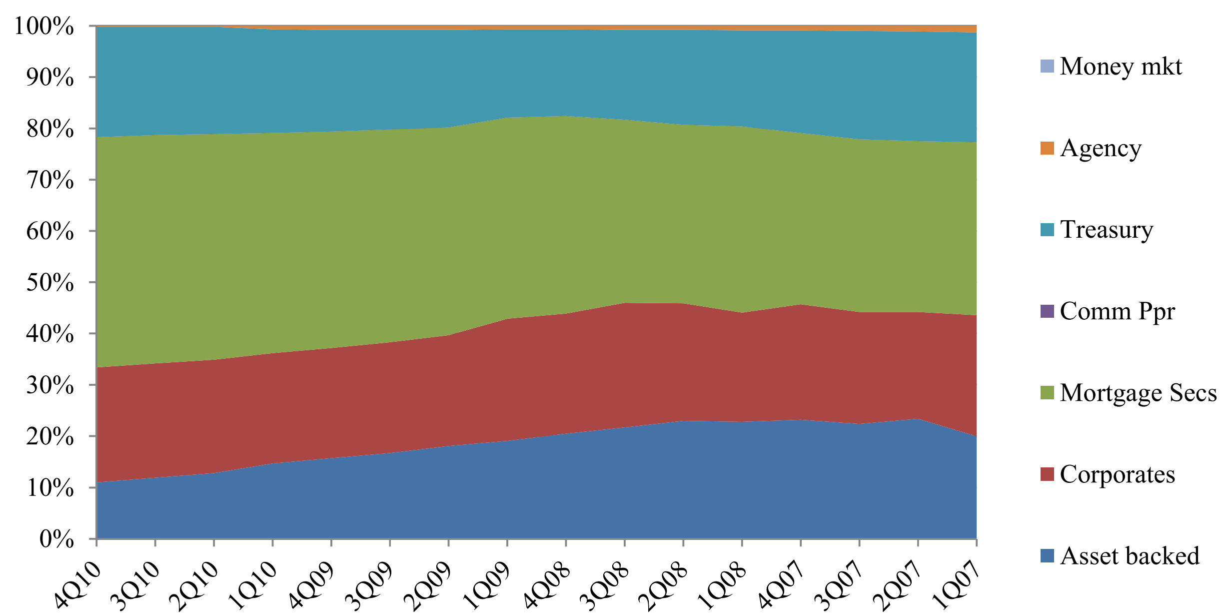
Purpose of Rule	Policy Rule	Maximum or Minimum	Policy Deviation?
Diversification	Treasury/Agency within 20-100 percent	53.20%	No
Diversification	Misc. Gov't less than 50%	less than 50%	No
Diversification	Mortgage less than 50%	44.90%	No
Diversification	Corporate less than 35%	23.80%	No
Diversification	Asset backed less than 30%	23.40%	No
Diversification	Tpool less than 30%	0.00%	No

Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury's 2010 Investment Policy.

Allocations in the Major Medical Insurance Fund remained within policy limits during the period 2007 through 2010.

The Major Medical Insurance Fund asset allocation (shown in the graph below) during the period 2007 through 2010 was basically stable with mortgage securities replacing maturing asset-backed securities.

Asset Allocation During the Period Calendar Years 2007 through 2010
Major Medical Insurance Fund



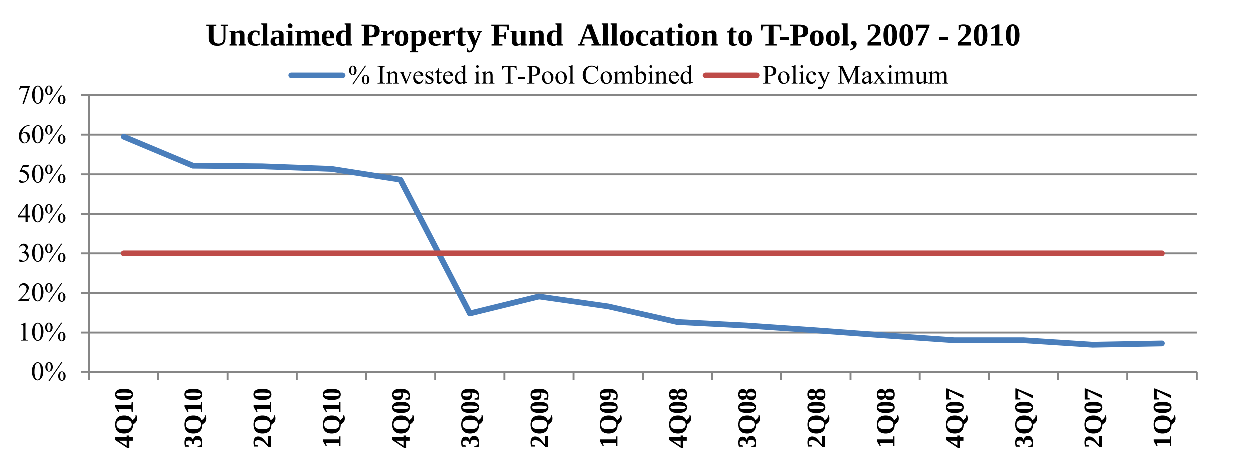
Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury's quarterly performance reports for Calendar Years 2007 through 2010.

Unclaimed Property Tourism Promotion Trust Fund

Purpose of Rule	Policy Rule	Maximum or Minimum	Policy Deviation?
Diversification	Treasury/Agency within 20-100 percent	57.20%	No
Diversification	Misc. Gov't less than 50%	less than 50%	No
Diversification	Mortgage less than 50%	38.70%	No
Diversification	Corporate less than 35%	18.50%	No
Diversification	Asset backed less than 30%	21.90%	No
Diversification	**T-Pool less than 30%**	**59.60%**	**Yes**

Source: Buck Global Investment Advisors analysis of the Colorado Department of the Treasury's 2010 Investment Policy.

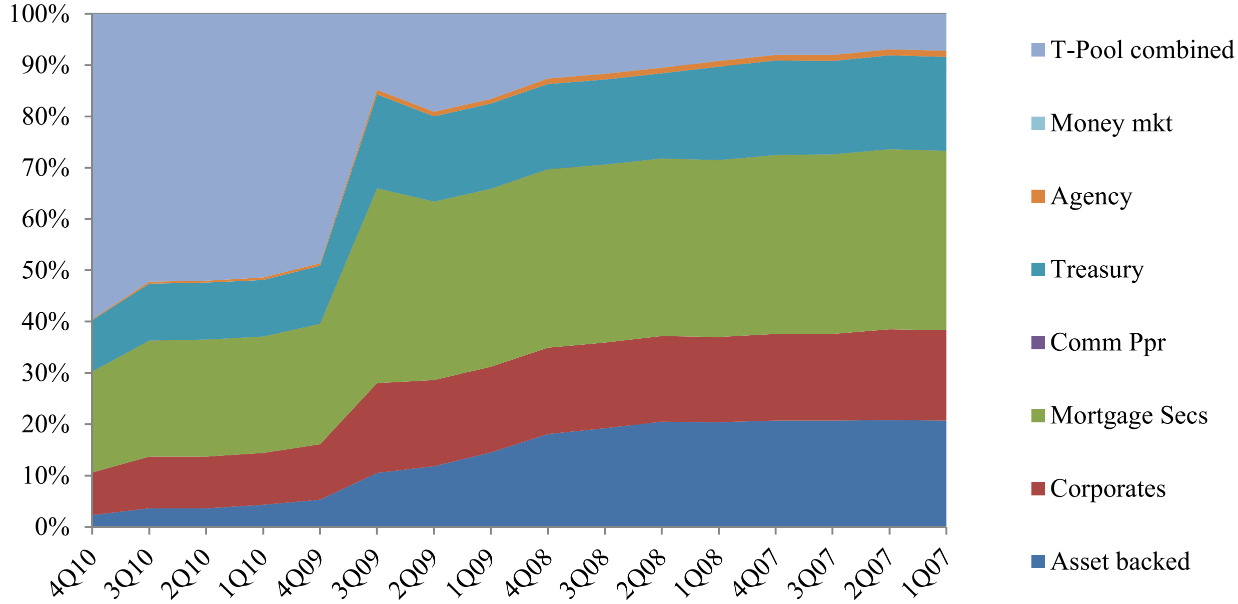
From the end of 2009 through 2010, the allocation of the Unclaimed Property Tourism Promotion Trust Fund to the Treasury Pool exceeded the 30 percent limit defined by the Treasury Investment Policy Statement. The fund balance increased because sales of unclaimed property exceeded the amount the fund paid in claims. The size of the fund doubled over a period of two years, but Treasury Officers perceived inadequate buying opportunities for non-T Pool investments during this period. Instead, they invested these large inflows into the T-Pool Combined fund.



Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury's quarterly performance reports for Calendar Years 2007 through 2010.

The Unclaimed Property and Tourism Promotion Trust Fund asset allocation (see graph below) during the period 2007 through 2010 was stable, with declining asset-backed security exposure, until the fund received significant asset inflows beginning in the third quarter of 2009. The allocation was then dominated by T-Pool combined, as discussed above.

Asset Allocation During the Period 2007 through 2010
Unclaimed Property Tourism Promotion Trust Fund



Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury's quarterly performance reports for Calendar Years 2007 through 2010.

State Education Fund

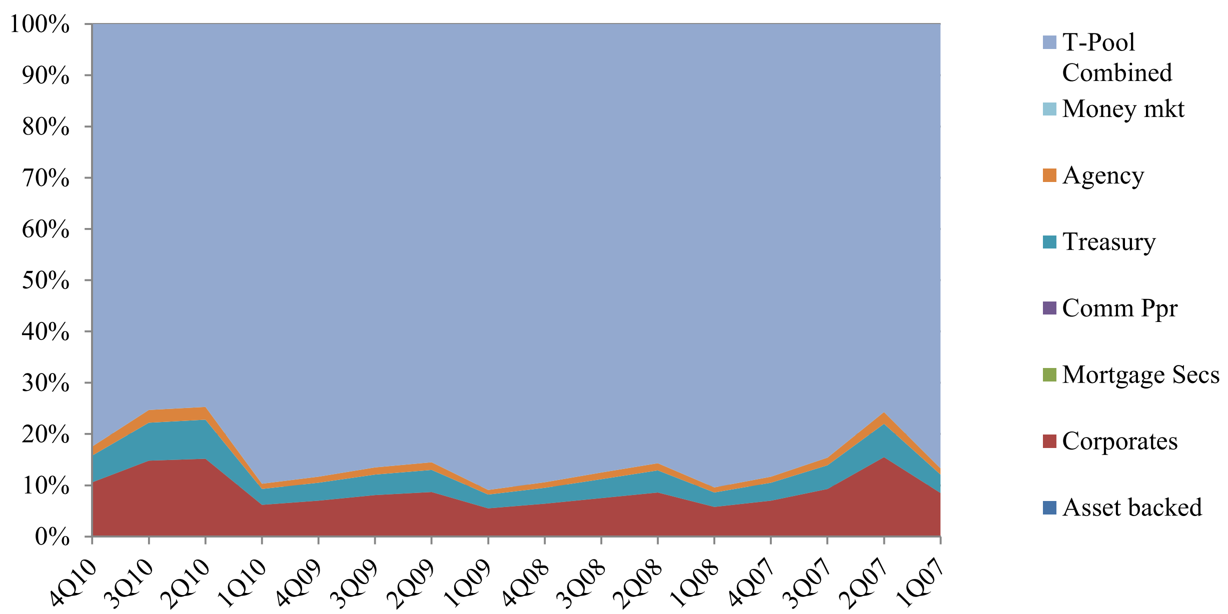
Purpose of Rule	Policy Rule	Maximum or Minimum	Policy Deviation?
Diversification	Treasury/Agency within 20-100 percent	37.10%	No
Diversification	Misc. Gov't less than 50%	not more than 8.8%	No
Diversification	Mortgage less than 50%	2.50%	No
Diversification	Corporate less than 20%	15.50%	No
Diversification	Asset backed less than 25%	0.00%	No
Diversification	Tpool more than 20%	74.70%	No

Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury's 2010 Investment Policy.

Allocations in the State Education Fund remained within policy limits during the period of Calendar Years 2007 through 2010.

The State Education Fund asset allocation (see graph below) during the period 2007 through 2010 was generally stable, marked by periodic declines in T-Pool allocation generally occurring in each of the second quarters.

Asset Allocation during the Period Calendar Years 2007 through 2010
State Education Fund



Source: Buck Global Investment Advisors analysis of Colorado Department of the Treasury's quarterly performance reports for Calendar Years 2007 through 2010.

Treasury staff could not provide any documentation that these deviations from the Investment Policy Statement were reviewed or approved by the State Treasurer. Although neither deviation was a detriment to the portfolios and may have even improved the disposition of the funds, such deviations from the Investment Policy Statement should only occur after prior review and written approval by the State Treasurer.

As previously discussed, the State Treasurer bears ultimate responsibility for the Treasury Investment Program but has delegated the day-to-day investment decisions to specified Investment Officers. To ensure that investment activities comply with state statutes and achieve Investment Program objectives, the State Treasurer established the Investment Policy Statement and requires Investment Officers to operate within the policy's boundaries. For the Investment Policy Statement to be an effective control, Investment Officers should not be allowed to deviate from the boundaries of the Investment Policy Statement unless they obtain prior written approval from the State Treasurer, or his or her designee.

Recommendation No. 1:

The Department of the Treasury should obtain written pre-approval from the State Treasurer, or in his or her absence, the Deputy State Treasurer, for deviations from the Investment Policy Statement lasting longer than a three month period. The process of review and approval should be documented in writing and should occur prior to the occurrence of any investment activities that would result in a deviation from the Investment Policy Statement for a period greater than three months.

Department of the Treasury Response:

Partially Agree. Implementation date: July 2011.

The Department of the Treasury plans to obtain written approval from the State Treasurer, or in his or her absence, the Deputy State Treasurer, for deviations from the Investment Policy Statement lasting longer than a three month period. While the Treasury will strive to seek pre-approval for these deviations, there are instances where pre-approval will not be possible and in those cases, we will request that the State Treasurer or his or her designee ratify those deviations.

Statutory Limitations on Investments

The Treasury Investment Program consists of fixed income securities entirely from the United States. The Treasury's investment in only United States fixed income securities is a requirement of statute. Specifically, the guidelines for permissible investments are found in Sections 24-36-

113 and 24-75-601, C.R.S. The current version of these statutes traces back to 1963, when the only permissible investments were U.S. Treasury and Agency securities. Historically, statutory restrictions on the types of investments permissible for the Colorado Treasury have been periodically amended to keep pace with capital markets. For example, in 1977 statute was changed to allow securities lending, in 1988 it was changed to allow purchases of corporate bonds, and in 2008 it was changed to allow for the purchase of reverse repurchase agreements. In addition, statute has been amended to allow specific investments in securities issued by the World Bank, the Asian Development Bank, and the African Development Bank, as long as these securities meet quality standards defined by Standard & Poor's, Moody's, and Fitch Ratings credit ratings agencies. However, statute does not allow non-domestic investments.

We compared Colorado's statutorily allowable investments with similar investment policies and practices in other states and found that other state treasurers have begun to authorize non-U.S. fixed income investments. New Jersey, Florida, Oregon, and Pennsylvania, for example, all use non-U.S. fixed income investments within their short-term fixed income general funds. These states' investment programs have marginal to modest allocations (two to seven percent) to non-U.S. fixed income securities. Generally, although non-U.S. fixed income securities may be based in a foreign currency, these other states' investments are in U.S. dollars, so there is no risk of loss from currency changes. Furthermore, many of these states impose a credit quality restriction on these types of securities. For example, the security must have a minimum quality rating of Aa3 or AA-. Quality ratings of Aa3 or AA- are the 4th highest quality investment rating possible, and investment grade credit extends to the 10th highest credit tier. Investing in foreign securities has become easier and there are now options for eliminating the foreign currency risks formerly associated with non-domestic securities investments. Specifically, foreign securities are often available in U.S. dollars, or are easily hedged by an overlay that removes the exchange-rate risk of foreign currency.

In the 1960s, when the Colorado statute specifying allowable investments was enacted, capital markets were different. Today, capital markets are more varied, and because of the current U.S. debt position, there are concerns about the quality of U.S. Treasury and Agency debt securities. Other state treasurers have started investing in non-U.S. fixed income securities because some non-U.S. securities are considered to be of higher quality than some domestic securities. In fact, Standard & Poor's has recently begun to publish a quality rating for U.S. debt, which had previously been deemed of such high quality it did not require a credit rating.

It is difficult to tell if these concerns about U.S. Treasury and Agency debt are just a passing concern, or if they are an indication of a more serious long-term problem. Regardless, it is necessary to make accommodations for either contingency. Additionally, the multi-national structure of many companies can make it difficult to determine whether investing in a particular company is in fact investment in a solely a "domestic" security. The current statutory limitation preventing investments in foreign securities is outdated and inappropriately restrictive. A more suitable restriction would be to allow investment in both U.S. and non-U.S. securities, as long as the securities are of high quality with a rating of perhaps AA- and above, and offered in U.S. dollars. We believe that investments in non-U.S. fixed income securities will better serve the State and help the Treasury meet its investment objectives of safety, liquidity, and yield.

Recommendation No. 2:

The Department of the Treasury should research the benefits of eliminating statutory limitations requiring that investments be only in U.S. Securities. Should the Department find it beneficial, the Department should work with the members of the General Assembly to seek statutory change eliminating the requirement that Treasury funds be invested only in U.S. securities and instead allow investments in high-quality foreign securities denominated in U.S. dollars.

Department of the Treasury Response:

Agree. Implementation date: Ongoing.

The Department of the Treasury plans to continue to work internally to determine the extent of statutory changes necessary to address the requirement that Treasury funds be invested only in U.S. securities. After sufficient evaluation, the Treasurer's Office plans to work with the members of the General Assembly to make any statutory changes deemed necessary.

Role of the Advisory Committee

Since 1989, state treasurers in Colorado have appointed an Advisory Committee to help them evaluate investments. Currently, there are 15 members on the Advisory Committee who are experienced in diverse aspects of finance, state government, and investments. Eight members were appointed by the State Treasurer, although the number of appointments is the prerogative of the State Treasurer; there is no policy or statutory rule regarding appointments. Service on the Advisory Committee is voluntary, and members have no voting rights or decision-making authority over the Treasury Investment Program. Members of this Committee are not fiduciaries to the Treasury Investment Program. As non-fiduciaries they have the potential to provide valuable insight, guidance, and direction to the State Treasurer and Investment Officers based on their experience and expertise in finance and investments, however, they have no financial liability for advice or guidance provided to the State Treasurer.

We reviewed the Investment Policy Statement and found that the policy has conflicting language with respect to the role of the Advisory Committee in the investment process. Specifically, the second paragraph of the Investment Policy Statement states the role of the Advisory Committee is to "provide guidance on policies and strategies and monitor results." The prominence and purpose of the Advisory Committee in the Investment policy suggests a prominent role in the investment process.

The problem arises in a subsequent section of the Investment Policy Statement when the investment policy describes prudence in the investment process. The policy states that “all participants in the investment process shall act as fiduciaries.” This statement, along with the prominent role of the Advisory Committee, is confusing and not reflective of the actual role played by the Committee. Specifically, these two sections of the Investment Policy Statement, combined, could lead the reader to believe that the Advisory Committee is a fiduciary body with a prominent role in the investment process.

Further, we found that the policy does not clearly describe what the composition of the Advisory Committee should be, or how often the Advisory Committee is required to meet. We found that the Advisory Committee sometimes meets once per year and other times meets twice per year..

The Investment Policy should be a clear document that accurately describes the investment process and the role of each of the participants in the process, and makes the Treasury’s operations and investment practices transparent to outside observers and investors.

Recommendation No. 3:

The Department of the Treasury should revise the Investment Policy Statement to remove the implication that the Advisory Committee has a prominent role in the investment process and make it clear that the Advisory Committee is not a fiduciary to the Treasury Investment Program. Additionally, the Investment Policy Statement should be revised to specify the composition and minimum meeting schedule of the Advisory Committee.

Department of the Treasury Response:

Agree. Implementation date: December 2011.

The Department of the Treasury plans to revise the Investment Policy Statement to remove the implication that the Advisory Committee has a prominent role in the investment process and make clear that the Committee is not a fiduciary to the Treasury Investment Program. The Treasury will also consider specifying the composition and minimum meeting schedule of the Committee.

Monitoring Investments

The objectives of the Treasury Investment Program are legality, safety, liquidity, and yield, in that order. To determine if an investment is legal and safe, the Treasury Investment Program relies on the credit ratings provided by the Nationally Recognized Statistical Ratings Organizations (credit rating agencies). In particular, the Department of the Treasury relies on

Standard & Poor's, Moody's, and Fitch Ratings. These agencies provide quality ratings for debt securities. In order to be allowed into the portfolio, a security must meet or exceed minimum credit rating specifications established by the Investment Policy Statement at the time of acquisition.

The performance of the Treasury Investment Program, like most fixed income portfolios, is sensitive to the accuracy of credit rating agencies. The most important objectives of the Investment Program, legality and safety, are strongly linked to the accuracy of the ratings provided by Standard & Poor's, Moody's, and Fitch. In recent years, the credit ratings offered by credit ratings agencies, such as Standard & Poor's, Moody's, and Fitch, have been called into question. Specifically, companies selling securities such as bonds and structured mortgages pay credit ratings agencies to provide a quality rating for those securities. As a result, concerns have been raised about a tendency toward ratings that are intrinsically optimistic and promote repeat business. Observers have long been critical of this inherent conflict of providing ratings for the companies that pay for them. However, it was not until the market crisis that these inherent conflicts harmed investors who relied solely on these ratings.

We reviewed the tools that Treasury staff use to monitor the quality of the Treasury's investments and found that the Treasury uses a blend of credit ratings agency research and various independent sources. Credit ratings from the ratings agencies are free of charge for investors to use; by contrast, independent credit research is not. While at times the Treasury has used independent credit research, it has not consistently used an independent credit rating research agency to monitor the quality of its investments.

Over the past decade, many other public funds have sustained losses in the billions of dollars because of their over reliance on credit ratings agencies. To ensure this does not happen to Colorado's public funds, we believe the Treasury should identify and obtain additional sources of independent investment research.

Recommendation No. 4:

The Department of the Treasury should continue to use internal research and seek additional sources of independent research, including purchasing subscriptions to independent credit ratings research, to determine the quality of investment securities when making investment decisions.

Department of the Treasury Response:

Agree. Implementation date: Ongoing.

The Department of the Treasury plans to continue to use internal research and seek additional sources of independent, third-party research, including purchasing subscriptions to independent credit ratings research. Purchasing subscriptions to independent research will be subject to the Department's budgetary constraints.

Disposition of Prior Recommendations

Recommendation Summary	Agency Response	Status	Buck Verification of Current Status
The Department of the Treasury should continue to seek to maximize investment returns on the T-Pool by reviewing the balances in T-Pool Cash and T-Pool 1-5 on a daily basis, along with projected cash flow needs, to ensure it maintains an appropriate balance in the two portfolios.	Agree	Implemented and ongoing	Buck confirmed that the Treasury has continued to maximize its investment returns by reviewing balances daily and making appropriate adjustments to the T-Pool.
The Department of the Treasury should consider broadening the investment policy of the Public School Permanent Fund to make it consistent with the Prudent Investor Standard. This change would include allowing investments in equities and cash equivalents, if the opinion from the Attorney General indicated that such investments are permissible.	Partially Agree	Not Implemented	The Attorney General indicated that the State Constitution does not permit equity investments in the Public School Permanent Fund.
The Department of the Treasury should evaluate the use of Treasury Inflation-Protected Securities (TIPS), particularly for the Public School Permanent Fund, Major Medical Insurance Fund, and Unclaimed Property and Tourism Promotion Fund.	Agree	Implemented	Investment Officers indicated that TIPS are considered as a possible investment, but they are not currently desirable for the portfolios.

Recommendation Summary	Agency Response	Status	Buck Verification of Current Status
The Department of the Treasury should incorporate market values as well as total return and peer group benchmarks in the management of the funds. If market values are actively utilized to manage the funds, the investment policy guidelines for each fund should be based on market values instead of book values.	Disagree	N/A	N/A
The Department of the Treasury should amend the investment policy for the State Education Fund to include a more comprehensive description of the guidelines and investment strategy.	Agree	Implemented	The investment policy now has explicit guidelines regarding the State Education Fund.
The Department of the Treasury should modify the investment policy to indicate: (1) timing for a regular review of each funds' policy, perhaps annually; (2) who has authority to amend the policy; and (3) when the policy was last amended.	Agree	Partially Implemented	The policy now describes who has authority to modify policy and indicates when it was last amended, but does not describe timing for a regular review.

Recommendation Summary	Agency Response	Status	Buck Verification of Current Status
The Department of the Treasury should appoint a compliance officer who will prepare a quarterly compliance report for each fund, which certifies that the fund complies with the investment policy, or if a violation has occurred, the report would describe the steps to correct it.	Agree	Implemented	The Department of Treasury appointed a compliance officer in July 2008 to carry out these duties. In particular, the PDQ (job description) for this position (Cash Manager) includes a 10 percent duty allocation to the role of Compliance Officer. The tasks associated with this position include: ensure the Treasury Investment Program portfolios are in compliance with statute, detect when out of compliance, and provide notice to the deputy State Treasurer when out of compliance.
The Department of the Treasury should ensure that key historical performance data is maintained electronically, and if custodians are changed in the future, it should seek to load the prior custodian's return data into the new service provider's system.	Agree	Implemented	JP Morgan Chase, the custodian, now has electronic data, as described.
The Department of the Treasury should seek to obtain a portfolio analytical application in order to improve the analytical tools utilized in managing the funds.	Agree	Implemented	The Treasury obtained and uses the BondEdge monitoring software.

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