



PENNSYLVANIA TREASURY

INVESTMENT POLICY STATEMENT

Pennsylvania INVEST Program

June 21, 2023

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INTRODUCTION

This Investment Policy Statement (“IPS”) provides a framework for the Commonwealth of Pennsylvania Treasury Department (“Treasury”) to manage the investments of the Pennsylvania INVEST Program, which comprises the Pennsylvania INVEST Daily Pool (“Daily”) and the Pennsylvania INVEST Community Pool (“Community”), collectively referred to as “INVEST” or the “Pools”. This document will assist Treasury in fulfilling its fiduciary responsibility by establishing investment standards that are consistent with The Fiscal Code, 72 P.S. §1 *et seq.*; The Administrative Code, 71 P.S. §1 *et seq.*; and all other applicable laws, rules, and regulations. The provisions of this IPS are intended to aid Treasury employees and financial professionals retained by the Treasury in making decisions about investment matters.

Background

The Pennsylvania Treasury Department is an independent executive office created by the Constitution of the Commonwealth of Pennsylvania, Article IV, § 1, 18. The Treasurer serves as statutory custodian of the funds of virtually all state agencies, with the responsibility for monitoring and safeguarding money and securities, according to 72 P.S. § 303. In addition, Section 3832 of the Fiscal Code authorizes the Treasury Department, if requested, to receive and serve as custodian for any moneys deposited with it.

INVEST currently serves as custodian for funds deposited by local governmental units (including county, city, borough, incorporated town, township, school district, or other units of government, authorities, boards, and commissions, among others) and by nonprofit and charitable organizations (including colleges, community colleges, universities, hospitals, libraries, and fire companies, among others). The Pools’ aggregate participant deposits into either Daily or Community based on the entity type of the participant. The Daily Pool is for governmental participants, and the Community Pool is for non-governmental participants. The participant entity type is the key distinction between the Pools which otherwise have identical investment objectives and guidelines. Investment implementation may differ periodically based on the size of the Pool and participant cash flows.

Purpose of the IPS

This IPS has been adopted by the Treasury Department in order to:

- Define and assign the responsibilities of all involved parties;
- Document the investment goals and objectives of the Pennsylvania INVEST Program;
- Provide guidelines and procedures for the investment of assets of the Pools; and
- Establish a basis for evaluating each Pool’s investment results.

STANDARD OF CARE

Prudence

Guidelines respecting prudence have been developed in light of investment objectives related to the Pools. Economic and investment trends and socio-political events are factors that affect meeting those objectives. Accordingly, these guidelines are, as a part of this IPS, intended to present broad and balanced considerations to guide incumbent and successor Investment

Committee and staff members, and all other parties concerned, seeking appropriate allocation, investment, safekeeping, monitoring, and evaluation of the Pools.

Pool fiduciaries shall discharge their responsibilities and assets shall be invested in a manner consistent with this IPS, and generally accepted fiduciary standards. All transactions undertaken on behalf of the Pools shall be solely in the interest of Pool participants and their beneficiaries.

In making investments for the Pools, the Treasurer is charged with exercising that degree of judgment and care that experienced investors of prudence, discretion, and intelligence employ in the management of their own affairs regarding the permanent disposition of their assets, as set forth in 72 P.S. § 301.1. Implementation of this investment standard, commonly called the Prudent Person test, requires the exercise of careful judgment in determining those investments that are appropriate for each INVEST Pool based upon cash flow requirements, investment time horizons, law, and other investment criteria. Investment decisions must also reflect any differing legal standards that authorize or limit the particular kinds of investments each Pool may hold.

Ethics and Conflicts of Interest

Treasury employees involved in the investment process shall refrain from any personal business activity that could conflict with the proper execution and management of any Treasury investment program, or that could impair their ability to make impartial decisions. Treasury employees shall provide all disclosures required by 65 Pa.C.S. § 1101 et seq., commonly known as the Public Official and Employee Ethics Act, and internal Treasury Code of Conduct, which prohibits by way of example Treasury employees receiving anything of value from a vendor or anyone doing business with Treasury. Financial professionals shall disclose in writing to the Investment Committee any material interests they hold in financial institutions with which they conduct business or any other sources of potential conflicts of interest. Such written disclosure shall be made immediately upon discovery of the potential conflict. Treasury reserves the right, in its sole discretion, to require financial professionals to sell or otherwise dispose of such material interests or to limit or terminate the financial professionals' engagements.

Delegation of Authority

The Pools are managed by Treasury's investment staff and managed based on the applicable Pennsylvania law. No person may engage in an investment transaction except as provided under the terms of this IPS.

DISTINCTION OF RESPONSIBILITIES

Responsibilities of the Treasurer

The Treasurer is the Chief Executive Officer of Treasury and has ultimate and final authority over and responsibility for the actions of Treasury and the fulfillment of its legal mission. The Treasurer is responsible for managing the moneys of the various programs to preserve principal, provide liquidity, and generate returns that are consistent with both programmatic requirements and legal limitations. To achieve these objectives, the Treasurer has the right and responsibility to manage the various employees, agents, and contractors of Treasury. The Treasurer may designate specific agents, such as the Investment Committee or the Chief Investment Officer, to carry out activities in fulfillment of these responsibilities. Acting alone, or through agents in Treasury, the Treasurer shall:

- Seek the preservation of capital;

- Meet the liquidity needs of each Pool's participants;
- Generate returns that are consistent with programmatic requirements and permissible investments;
- Establish reasonable and consistent investment objectives and policies that will direct the investment of each Pool's assets;
- Prudently and diligently select qualified financial professionals in pursuit of these objectives;
- Regularly monitor the performance of the financial professionals to evaluate progress in attaining investment objectives;
- Maintain compliance monitoring to ensure adherence to this IPS;
- Periodically review and revise this IPS to reflect changing circumstances or experiences; and
- Establish and maintain due diligence guidelines.

Responsibilities of the Investment Committee

Treasury shall utilize an Investment Committee ("Committee") to advise and assist the Treasurer in the discharge of his statutory duties. The Committee shall consist of the Chief Investment Officer, who shall chair meetings of the Committee; the Chief Counsel; and other persons whom the Treasurer may wish to appoint. The Committee shall meet at least once each calendar quarter and on such other occasions as the Treasurer shall direct. Meetings may occur in person, by telephone conference call, or by such other means as the Chair deems to be appropriate.

The Committee's responsibilities shall include the following:

- Advise the Treasurer on the IPS and monitor implementation thereof;
- Use available information and resources, including advice from investment consultants, to evaluate any financial professionals needed to assist in the administration and implementation of the IPS;
- Monitor the portfolio attributes, performance, and conduct of all professionals associated with each Pool's investment program at least quarterly;
- Perform specific tasks and functions identified in this IPS or as directed by the Treasurer.

Responsibilities of the Investment Consultant(s)

Treasury has retained independent investment consultants as its agents to assist in fulfilling the investment goals and objectives in this IPS. Acting on behalf of the Treasurer, the consultants' responsibilities include the following and as the Treasurer may direct:

- Comply with applicable laws and regulations;
- Provide advice to determine the most effective investment program and the allocation of assets among the various investment choices;
- Measure the Pools' investment performance results and evaluate the investment program;
- Review this IPS regularly and recommend modifications as appropriate;

- Promptly inform the Treasurer and Committee regarding significant matters regarding the investment of the Pools' assets; and
- Adhere to the applicable investment consulting agreement between Treasury and Investment Consultant.

Responsibilities of Investment Manager(s)

Treasury's investment staff will manage the assets of the Pools and have the following responsibilities:

- Manage the portion of the Pools' assets under their control in accordance with this IPS and any applicable management agreement and law; and
- Exercise full investment discretion within the policies and guidelines.

Responsibilities of the Custodian/Sub-Custodian

The Treasurer serves as the statutory custodian of the funds for virtually all state agencies, with the responsibility for monitoring and safeguarding money and securities, according to 72 P.S. § 303. As noted in, among other places, 72 P.S. § 301.1, the Treasurer has broad authority to place these moneys in any investments subject to a standard of prudence and diligence.

Treasury has retained a sub-custodian as its agent to safeguard the Pools' assets; acting on behalf of the Treasurer, such sub-custodian will have the following responsibilities:

- Hold, safeguard, and accurately price the Pools' assets;
- Collect the interest, dividends, distributions, redemptions, or any other amounts due to the Pools;
- Report all financial transactions to the investment consultant and any other Treasury designee(s);
- Prepare periodic summaries of transactions, asset valuations, and other related information as deemed appropriate; and
- Perform all duties as detailed in the respective custodial agreement.

Service Providers

Treasury has contracted with several entities to support the INVEST Program on behalf of the Treasurer, as detailed in Appendix A of this IPS.

INVESTMENT OBJECTIVES

The primary objectives of INVEST are to provide maximum security and liquidity, and to maintain the highest possible rating for both Pools.

This IPS establishes standards that restrict the investment of the Pools to only those investment assets or vehicles authorized by law for their respective governmental or community participants. In no event shall these standards be interpreted to authorize investments that are inconsistent

with or contrary to the applicable statutory authority of the Daily or Community participants (Appendix B).

To maintain the highest possible rating, the Pools, are further restricted to investments that also satisfy criteria established by a Nationally Recognized Statistical Ratings Organization (“NRSRO”). These criteria may be more or less limiting than the provisions of Pennsylvania statutory law authorizing permissible investment assets or vehicles. Treasury seeks to comply with the stricter standard.

INVEST moneys and assets shall never be commingled with any Commonwealth moneys or assets, including those for which the Treasurer is the custodian.

Pennsylvania INVEST Program

The investment objectives of both the INVEST Daily Pool and INVEST Community Pool are to conserve the principal, to provide flexible liquidity to meet the daily cash flow needs of participants, and to generate a competitive return while containing costs. INVEST is similar in concept to a money market fund and seeks to maintain a stable \$1.00 per share net asset value (“NAV”). If the NAV declines to \$0.9985 or increases to \$1.0015, the Treasurer or their designee(s) and the Investment Committee is to be notified.

Risk Tolerance

The primary objective of the Pools is to conserve principal. Therefore, all investments made in the Pools will be in accordance with the Pools’ processes and procedures for maintaining a stable NAV of \$1.00 per share in addition to maintaining the highest available rating issued by the contracted NRSRO.

Liquidity

In pursuit of the objective to provide flexible liquidity for participants, the INVEST Daily Pool and INVEST Community Pool both allow for same-day deposits and redemptions and have no minimum deposit period. To maintain sufficient liquidity to meet this objective, the Pools only invest in high-quality, short-term securities denominated in U.S. dollars. Additionally, the Pools maintain a dollar-weighted average maturity of no more than 60 days (floating and variable rate securities are adjusted to next interest-rate reset date) and a dollar-weighted average life (floating and variable rate securities are calculated to final maturity) of no more than 90 days. Furthermore, they only buy investments that have either a final or effective maturity of 397 days or less.

Return Objectives

Generate a competitive return while containing costs consistent with conserving principal, maintaining liquidity, and maintaining a stable NAV of \$1.00 per share. Performance is compared to the three-month U.S. Treasury Bill.

INVESTMENT GUIDELINES

Treasury’s investment staff, and any person or entity acting on behalf of the Treasurer, shall conform to the investment guidelines set forth below. Any departure from the guidelines must be submitted in writing to the Treasurer, Committee, and Investment Consultant for prior approval.

The Pools are managed following Statement No. 79 of the Government Accounting Standards Board (“GASB 79”). GASB 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. The statement also establishes minimum requirements for the financial statements to be presented and the disclosures to be made in the separate financial reports of governmental external investment pools.

The Pools are limited to investing in cash and cash equivalents and fixed income securities expressly authorized by entity-specific legislation, subject to the following:

- 1) Repurchase agreements (“Repo”) with respect to United States Treasury Bills or obligations, participations, or other instruments of or guaranteed by the United States or any Federal agency, instrumentality, or United States government-sponsored enterprise.

Repo counterparty limits are as follows:

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| Maximum per 'A-1+' counterparty overnight (1 business day) | 50% |
| Maximum per 'A-1+' counterparty 2-5 business days | 10% |
| Maximum per 'A-1+' counterparty more than 5 business days* | 5% |
| Maximum aggregate exposure to any single 'A-1+' counterparty | 50% |
| Maximum per 'A-1' counterparty overnight (1 business day) | 25% |
| Maximum per 'A-1' counterparty 2-5 business days | 10% |
| Maximum per 'A-1' counterparty more than 5 business days* | 5% |
| Maximum aggregate exposure to any single 'A-1' counterparty | 25% |
| Maximum per 'A-2' counterparty overnight (1 business day) | 5% |
| Maximum per 'A-2' counterparty 2 or more business days | 0% |
| Maximum fund exposure, aggregated over all 'A-2' counterparties | 10% |

*The aggregate amount of all repos across all counterparties (regardless of the rating on the counterparty) with maturities of more than five business days is limited to 10 percent of a Pool’s total assets. Maximum aggregate exposure to the counterparty includes both collateralized and uncollateralized exposures. For example, if a Pool invests 5 percent in commercial paper with an 'A-1' rated bank, the maximum exposure to an overnight collateralized repurchase agreement with that same bank would be 20 percent.

- 2) Maximum 100 percent exposure to money market funds that are shares of an investment company registered under the Investment Company Act of 1940
 - a. Whose shares are registered under the Securities Act of 1933;
 - b. That are managed in accordance with 17 CFR 270.2a-7 (relating to money market funds);
 - c. That are rated in the highest category by a nationally recognized statistical rating organization (“NRSRO”); and
 - d. Where the investments of the company are investments authorized by this IPS.
- 3) Maximum per issuer (including debt guaranteed by the same issuer) of five percent, except for the items listed in the following sub-list:
 - a. Maximum 100 percent exposure to United States Government Obligations.

- b. Maximum 100 percent exposure to obligations, participations or other instruments of any Federal agency, instrumentality or United States government-sponsored enterprise, including those issued or fully guaranteed as the principal and interest by Federal agencies, instrumentalities or United States government-sponsored enterprises, if the debt obligations are rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
 - c. Federal Agencies must be rated AA- or higher and are further restricted to a maximum of 33% per issuer.
 - d. Maximum 5% exposure per money market fund.
- 4) Commercial paper issued by corporations or other business entities organized in accordance with Federal or State law, with a maturity not to exceed 270 days, if the issuing corporation or business entity is rated in the top short-term category by at least two NRSROs.
- 5) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days' maturity and the accepting bank is rated in the top short-term category by at least two NRSROs.
- 6) The combination of commercial paper and bankers' acceptances shall not exceed 75 percent.
- 7) Maximum 100 percent in negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of 397 days or less, issued by a nationally or State-chartered bank, a Federal or State savings and loan association or a State-licensed branch of a foreign bank. For obligations with a maturity of one year or less, the debt obligations of the issuing institution or its parent must be rated in the top short-term rating category by at least two NRSROs. For obligations with a maturity in excess of one year, the senior debt obligations of the issuing institution or its parent must be rated at least "A" or its equivalent by at least two NRSROs.
- 8) Non-rated Pennsylvania certificates of deposit are permitted but must be fully collateralized as to the principal amount plus any accrued interest for any amount above FDIC insurance. Treasury allows the following types of collateral:
 - a. U.S. Treasury and Government Agency Securities. Debentures must be fixed-rate and have a call or maturity date of four years or less. (102 percent of principal plus accrued interest); and
 - b. Letters of Credit (100 percent of principal plus accrued interest) purchased through the Federal Home Loan Banks.
- 9) Maximum final maturity or effective maturity of 397 days for each investment.
- 10) Minimum 55 percent A-1+ rated investments.
- 11) Maximum 45 percent A-1 rated investments.

INVEST moneys and assets shall also be invested in adherence with the Protecting Pennsylvania's Investments Act, Act of Jul. 2, 2010, P.L. 266, No. 44 and the Russia and Belarus Divestiture Act, Act of Nov. 3, 2022, P.L.1970, No. 132. The Act was established to provide guidance and prohibitions for investments in countries and businesses identified in the Scrutinized

Companies in Iran List, Scrutinized Companies in Sudan List, or Scrutinized Companies in Russia or Belarus Lists.

REVIEW PROCEDURES

General

The Treasurer, Committee, and the Investment Consultant shall perform an annual review of this IPS and, as needed, recommend appropriate modifications.

Investment Performance

Pool investment performance will be reviewed internally on a monthly basis in addition to quarterly during Committee meetings. It is expected that investment performance will meet or exceed the Investment Objectives previously identified in this IPS, which will be measured by comparing the results to appropriate benchmark indices. Investment performance is published to the INVEST website annually as part of INVEST's Annual Report, which is available at www.painvest.gov and www.patreasury.gov.

Sub-Custodian Account Reconciliation

Treasury will reconcile the positions of each Pool with the contracted sub-custodian on a monthly basis.

Risk Metrics

Treasury will closely monitor credit risk and illiquidity risk, through consultation with providers of investment management consulting services.

Rating Review

Weekly reporting of portfolio positions and daily portfolio attributes are sent to the NRSRO for evaluation versus established rating criteria. The NRSRO also conducts a full review of the Pools annually with which Treasury is required to participate in order to maintain the ratings on the Pools.

Fees

All trading costs and expenses will be aggressively monitored and controlled.

REVISION HISTORY

| Version | Approval | Comment |
|---------|----------------|---|
| 1.0 | June 30, 2020 | Base Document |
| 2.0 | April 15, 2022 | <ul style="list-style-type: none">• Reviewed and approved.• Minor grammar changes throughout document.• Revised maximum WAM to 90 days. |
| 3.0 | June 21, 2023 | <ul style="list-style-type: none">• Reviewed and approved.• Minor grammar changes throughout the document.• Lowered exposure limit in a single Money Market Fund from 10 percent to 5 percent.• Added Act 132 investment prohibitions. |

APPENDIX A

Current Service Providers

Treasury has contracted the following service providers to execute the necessary activity or to supply necessary information required to serve the clients of the INVEST Program appropriately.

- Investment Consultant – Marquette Associates, Inc.
- Investment Management Consulting Services – PNC Institutional Investments
- Nationally Recognized Statistical Ratings Organization “NRSRO” – S&P Global Ratings
- Sub-Custodian Bank – BNY Mellon Bank, N.A.

Accounting, Administration, and Participant Recordkeeping – The Nottingham Company

APPENDIX B

Current Pennsylvania Local Government Statutes

The Pennsylvania General Assembly has enacted laws that detail the scope of assets and vehicles in which government units may invest. Primary applicable statutory provisions identifying the investment authority for local government units are as follows:

- Second Class Counties: Section 1964 of the Second Class County Code (16 P.S. § 4964)
- Third through Eighth Class Counties: Section 1706 of The County Code (16 P.S. § 1706 updated 2018)
- Cities of Philadelphia, Pittsburgh, and others, as applicable: by Home Rule Charters
- Third Class Cities: Section 1804.1 of The Third Class City Code (11 Pa.C.S § 11804.1)
- Boroughs: Section 1316 of Act 37 of 2014 (8 Pa.C.S. § 1316)
- Incorporated Towns: Section 1 of the Act of July 3, 1980 (P.L. 372, No. 93) (53 P.S. § 53154.1), relating to incorporated towns
- Townships: Section 1705.1 of The First Class Township Code (53 P.S. § 56705.1)
- School Districts: Section 440.1 of the Public School Code of 1949 (24 P.S. § 4-440.1)
- Municipal Authorities: 53 Pa.C.S.A. § 5611 (relating to the Municipal Authorities Act)
- General Municipal Law: Act 10 of 2016 relating to General Municipal Law (53 P.S. § 5410.1)