



**STATE OF WYOMING**

**STATE LOAN AND  
INVESTMENT BOARD**

**MASTER INVESTMENT POLICY  
and SUB-POLICIES**

**Updated April 9, 2009**

Prepared with the assistance of:

R.V. Kuhns & Associates, Inc.  
111 SW Naito Parkway  
Portland, OR 97204-3512  
Ph: 503-221-4200

## TABLE OF CONTENTS

| <u>Section</u>   | <u>Page</u> |
|--|-------------|
| 1. Introduction .....  | 3           |
| 2. Investment Objectives and Achieving Return Objectives .....       | 3           |
| 3. Prudence, Responsibilities and Controls .....                     | 3           |
| 4. Fund Categories .....   | 9           |
| 5. Asset Allocation Guidelines and Rebalancing Policy .....          | 9           |
| 6. Cash Holdings .....   | 9           |
| 7. Pooled/Commingled Investments .....                               | 9           |
| 8. Permissible Investments .....                                     | 10          |
| 9. Prohibited Investments for Separate Account Situations .....      | 11          |
| 10. Derivatives Policy .....   | 11          |
| 11. Portfolio Guidelines .....                                       | 12          |
| 12. Risk Management .....  | 16          |
| 13. Safekeeping .....  | 17          |
| 14. Voting of Proxies .....  | 17          |
| 15. Securities Lending .....   | 17          |
| 16. Commission Recapture Program .....                               | 17          |
| 17. Liquidity .....  | 17          |
| 18. Trades and Exchanges .....                                       | 18          |
| 19. Procedures for Selecting and Reviewing Investment Managers ..... | 18          |
| 20. Nominal Return Benchmarks .....                                  | 19          |
| 21. Sub-Policies on Funds  |             |
| 1) State Agency Pool .....   | 22          |
| 2) Permanent Mineral Trust Fund .....                                | 25          |
| 3) Permanent Land Fund .....   | 27          |
| 4) Common School Permanent Land Fund .....                           | 29          |
| 5) University Permanent Land Fund .....                              | 31          |
| 6) Hathaway Scholarship Fund .....                                   | 33          |
| 7) Higher Education Endowment Fund .....                             | 35          |
| 8) Workers' Compensation Fund .....                                  | 37          |
| 9) Tobacco Settlement Trust Fund .....                               | 39          |
| 10) Wyoming State Treasurer's Asset Reserve (WYO-STAR) .....         | 40          |
| 22. Sub-Policy on Legislatively Designated Investments (LDIs) .....  | 42          |
| Glossary of Terms .....  | 42          |

# MASTER INVESTMENT POLICY and SUB-POLICIES

## Section 1. Introduction

The purpose of this document is to establish the Master Investment Policy and Sub Investment Policies for the State of Wyoming State Loan and Investment Board (herein referred to as the "Board"). The Board is responsible for the fiduciary oversight of these invested public funds. The Board has chosen these policies as the most appropriate policies to achieve the investment objectives described below. Wyoming Statute (W.S.) 9-4-716 states that the Board shall adopt investment policy statements for Wyoming State funds and shall review these policy statements at least annually.

## Section 2. Investment Objectives and Achieving Return Objectives

**2.1 Investment Policy.** It is the investment policy for the Board to invest public funds of the State of Wyoming (the "State") in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity.

**2.2 Investment Objectives and Priorities.** The current Wyoming State portfolio consists of the Permanent Mineral Trust Fund, the Permanent Land Fund, the Common School Permanent Land Fund, the University Permanent Land Fund, the Hathaway Scholarship Fund, the Higher Education Endowment Fund, the State Agency Pool, the Workers' Compensation Fund, the Tobacco Settlement Trust Fund and the Wyoming State Treasurer's Asset Reserve (WYO-STAR). All available funds shall be invested with the following objectives and priorities:

- a) Safety of principal. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio;
- b) Liquidity requirements of anticipated and unanticipated expenditures;
- c) Yield;
- d) Recognition of differing objectives and needs of various fund portfolios;
- e) Conformance with State law and other pertinent legal restrictions;
- f) Maximization of the total rate of return on investment consistent with the foregoing objectives;
- g) Diversification by asset type, security and investment manager in order to smooth the volatility of quarterly returns.

These objectives and priorities apply to the funds as a whole. Specific objectives and priorities are further delineated in each fund's sub-policy. Specific objectives and priorities for individual asset managers are delineated by mandate.

## Section 3. Prudence, Responsibilities and Controls

**3.1 Prudence.** All participants in the investment process shall act responsibly as custodians of the public trust. The standard of prudence to be applied by the officers of the State Treasurer's office and external service providers shall be as required under W.S. 9-4-715(d). The Board, the State Treasurer, all designees of the State Treasurer and any other fiduciary appointed by the State Treasurer shall exercise the judgment and care of a prudent investor as required under the prudent investor rule set forth in the Uniform Prudent Advisor Act, W.S. 4-10-901 to 4-10-913. This Act states that "[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." W.S. 4-10-901. Investments or groups of investments shall not be evaluated in

isolation but in the context of the entire investment portfolio and as part of an overall investment strategy of the trust or fund from which the investment is derived, consistent with the policies for such trust or fund established under W.S. 9-4-716 by the Board.

The purchase of a security or the making of any direct investment by the State Treasurer or the State Treasurer's designee in a security shall not constitute a delegation of the State Treasurer's duties. The State Treasurer may delegate investment and management functions that a prudent investor of comparable skills could properly delegate under the circumstances. The State Treasurer shall exercise reasonable care, skill and caution in:

- a) Selecting an agent;
- b) Establishing the scope and terms of the delegation, consistent with the purposes and terms of the trust; and
- c) Periodically reviewing the agent's actions in order to monitor the agent's performance and compliance with the terms of the delegation.

### **3.2 Ethics and Professionalism.**

#### **a) General.**

Members of the Board, its staff, the State Treasurer's Office and the Consultant (as hereinafter defined) responsible for investment decisions or who influence investment decisions (hereafter referred to as "Individuals") will be held to the highest standards of professional and ethical conduct and should be committed to a culture of honesty, integrity and accountability. Individuals shall not engage in any professional conduct involving dishonesty, fraud, deceit or misrepresentation or commit any act that reflects adversely on their honesty, trustworthiness or professional competence. Individuals shall be governed by applicable State statutes, including without limitation W.S. 6-5-118, W.S. 9-13-101 et seq. and W.S. 16-6-118.

#### **b) Compliance with Laws, Rules, Regulations and Policies.**

Individuals must comply with both the letter and spirit of all applicable laws, rules and regulations and the terms and provisions of this policy.

#### **c) Conflicts of Interest.**

Individuals have a duty to avoid financial, business or other relationships which might cause a conflict with the performance of their duties or could reasonably be expected to interfere with their duties or their ability to make unbiased and objective recommendations and decisions. Individuals should conduct themselves in a manner that avoids even the appearance of conflict between their personal interests and their duties as a public official or employee of the State. Conflicts of interest may arise in many ways. Examples include, but are not limited to:

- i) Acceptance of gifts, payments or services from those seeking to do business with the State as described in more detail in Section 3.3 below;
  - ii) Placement of business with an entity owned or controlled by an Individual or an Individual's family;
  - iii) Ownership of, or personal interest in, a company which is a vendor of the State;
  - iv) Ownership of, or personal interest in, any security purchased or investment made by the State;
- and
- v) Compensation to an Individual by a vendor or potential vendor of the State.

#### **d) Confidentiality.**

Individuals shall not disclose to any other person official information which Individuals obtain through or in connection with their duties, unless the information is available to the general public or unless the disclosure is authorized by law.

**e) Proper Use of Assets.**

Individuals shall endeavor to protect the State's assets and ensure their efficient use. State assets, such as funds and equipment, may only be used for legitimate State purposes.

**f) Fair Dealing.**

Individuals should endeavor to deal fairly with the State's investment managers and vendors. Individuals should not take unfair advantage of anyone through illegal conduct, manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair dealing practice.

**3.3 Gifts, Benefits or Favors.**

a) The work of the Board and its staff should always be free from even the inference or perception that favorable treatment was sought, received or given on the basis of the furnishing or receipt of gifts, benefits, entertainment, favors, hospitality or other gratuities. In furtherance of this goal, the following guidelines should be observed:

i) Individuals may not accept a gift from a vendor unless the gift has a known or apparent value of two hundred fifty dollars (\$250) or less;

ii) Printed informational, educational, advertising or promotional material shall not be considered a gift;

iii) In no event shall gifts of cash ever be accepted in any amount;

iv) Individuals may accept meals and attend receptions in connection with business discussions at which the host is present;

v) Individuals may accept invitations to attend activities, events and entertainment in connection with business discussions at which the host is present with a known or apparent value of two hundred fifty dollars (\$250) or less;

vi) Individuals may not accept multiple gifts and/or invitations for activities, events or entertainment from one vendor in a consecutive twelve (12) month period if the total known or apparent value of all such gifts, activities, events and entertainment is more than two hundred fifty dollars (\$250);

vii) Individuals may accept travel, registration and lodging paid by someone other than the State for meetings or educational seminars which are necessary or relevant to the operations of the State's investment program; and

viii) Loans from vendors may not be accepted in amounts in excess of two hundred fifty dollars (\$250) except for loans by recognized banks and financial institutions which are generally available at market rates and terms.

Vendor is defined as an existing or prospective provider of investment related services to the Board and/or the State Treasurer's Office including, but not limited to, brokers, investment managers, custodian bank representatives and consultants.

b) It is important that Board members who make investment decisions and other Individuals who influence those decisions act objectively without interference from any conflict of interest. Therefore, should an Individual (i) accept from a vendor gifts and/or invitations for activities, events or entertainment with a known or apparent value of more than two hundred fifty dollars (\$250) during any twelve (12) month period, (ii) with respect to such vendor, violate any other guideline described above in this Section

3.3 or, (iii) with respect to such vendor, otherwise have a conflict of interest as described in Section 3.2 above, then that Individual will be forced to abstain from any discussions, recommendations and votes involving that vendor at Board meetings or investment working meetings.

**3.4 Disclosure.** All Individuals must reaffirm their understanding and compliance with the policies contained in Sections 3.3 and 3.4 above in the form of an annual disclosure report to the Office of State Lands and Investments. Such disclosure shall comply fully with the provisions of W.S. 6-5-118 and shall be made a part of the minutes of the Board. The format and timing of such annual disclosure shall be as determined by the Office of State Lands and Investments. While disclosure shall be conducted on an annual basis, compliance with the policies stated in Sections 3.2 and 3.3 above is a continuing obligation and so, if a conflict of interest or other instance of non-compliance should arise at any time during the year, the Individual shall be responsible for reporting such instance to the Office of State Lands and Investments immediately.

**3.5 Board Responsibility.** The Board is comprised of five elected officials:

- a) Governor as President of the Board;
- b) Secretary of State;
- c) State Auditor;
- d) State Treasurer;
- e) State Superintendent of Public Instruction.

The Board responsibilities shall include but not be limited to the following:

- a) Advisor/consultant selection;
- b) Annual review of master investment policy and sub-policies;
- c) Termination and hiring of investment managers.

The Board may sue and be sued in the name of the Wyoming State Loan and Investment Board in the courts of this state and in no other jurisdiction on any mortgage, contract of sale or lease issued by the Board. The Governor is President of the Board but in his absence from any meeting any of the Board members may act as President Pro Tempore and preside at meetings. The Director of the State Land and Investment Office is the Chief Executive Officer of the Board. Prior to April 1, 1997, the Board was known and referred to as the Farm Loan Board.

**3.6 Appropriation.** The Board shall receive an appropriation directed to the Office of State Land and Investments to be used to compensate an investment consultant (the "Consultant") for its services.

**3.7 Treasurer Responsibility.** The State Treasurer's responsibilities are detailed in the following

- statutes:
- a) W.S. 9-4-715 Permissible Investments;
  - b) W.S. 9-4-716 State Investment Policy; Investment Consultant;
  - c) W.S. 9-4-717 Additional Investment Matters;
  - d) W.S. 9-4-718 Investment Managers;
  - e) W.S. 9-4-831 Investment of Public Funds.

In addition, the State Treasurer will have the following responsibilities:

**a) Authority to Invest.**

i) Designate in writing those Treasury Office personnel authorized to invest on behalf of the State. Authority to manage the investment program is granted to the State Treasurer derived from the above statutes;

- ii) Establish and carry out written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements, banking services contracts, and portfolio rebalancing;
- iii) Refrain from engaging in an investment transaction except as provided under the terms of this policy and the procedures established by the State Treasurer;
- iv) Be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials;
- v) Monitor the commission recapture and discount brokerage programs and issue directed brokerage letters (limited to the commission recapture program) to the managers on an annual basis;
- vi) Monitor the quality of investment manager trade execution through a trading cost evaluation survey;
- vii) Monitor performance reports from the Consultant;
- viii) Select and review custodian and securities lending agent;
- ix) Recommend termination to the Board of investment managers when appropriate.

**b) Internal Controls.**

The State Treasurer will establish a system of internal controls. The controls shall be designed to prevent losses of funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by staff. Such controls shall provide for but are not limited to:

- i) Separation of transaction authority;
- ii) Appropriate segregation of other related duties;
- iii) Custodial safekeeping of securities;
- iv) Holding of bearer form securities;
- v) Clear delegation of investment authority;
- vi) Frequent reconciliation of investment and accounting records;
- vii) Written confirmation of transactions;
- viii) Supervisory controls;
- ix) Control of collusion;
- x) Development of electronic fund transfer agreements with lead banks and/or third party custodians.

**3.8 Board Staff Responsibilities.** The staff of the Board is retained and authorized by the Board to support and maintain the integrity of the investment program. In striving for management quality, it is the policy of the Board to attract and retain qualified investment staff and to promote, encourage, and provide continuing education for the staff.

**3.9 Treasurer’s Office Staff Responsibilities.** The Treasurer’s office staff responsibilities shall be to monitor the investment program. Those responsibilities shall include:

- a) Investment research;
- b) Monitoring of Consultant recommendations;
- c) Monitor trade execution;
- d) Developing and recommending policy, asset allocation, portfolio structure.

**3.10 Consultant Responsibilities.** Duties of the State’s Consultant shall include, but not be limited to the following:

- a) Make recommendations to the State Treasurer and Board regarding investment policy and strategic asset allocation. The recommendations regarding reaffirmation and modification of these policies shall be at least on an annual basis;

- b) Assist the State Treasurer and the Board in the selection of qualified investment managers, and assist in the oversight of existing managers, including monitoring changes in personnel, ownership and the investment process;
- c) Assist the State Treasurer in the selection of a qualified custodian(s) and a securities lending agent;
- d) Assist the State Treasurer in negotiating fee arrangements and other contract terms with the investment managers on behalf of the State;
- e) Assist the State Treasurer in negotiating and arranging for brokerage and custodial services;
- f) Prepare a quarterly performance report to include performance attributions on all managers and total assets, including a check on guideline compliance and adherence to investment style and discipline;
- g) Render special projects at the discretion of the Board;
- h) Handle certain other matters, primarily reporting, as described elsewhere in these policies;
- i) The State's Consultant must be independent with no conflicts of interests with any current or prospective service providers to the State.

**3.11 Custodian Responsibilities.** Duties of the custodian shall include, but not be limited to the following:

- a) Provide complete custody and depository services for the designated State accounts;
- b) Provide within 10 days after month end, a monthly report of the investment activities conducted by the investment managers;
- c) Provide monthly and year end accounting statements for all funds, including all transactions;
- d) Collect all interest income, dividends, and principal realization and properly report it on monthly statements.

**3.12 Internal and External Manager Responsibilities.** Duties of the investment managers shall include, but not be limited to the following:

External Managers Only:

- a) Provide the State Treasurer's office with a written agreement to invest within the guidelines established in these policies and corresponding sub-policies. Alternative Investment managers will provide appropriately comparable documents, such as limited partnership agreements;
- b) Provide the State Treasurer's office with proof of liability and fiduciary insurance coverage;
- c) Be recognized as providing demonstrated expertise over a number of years in the management of institutional assets;
- d) Maintain frequent and open communication with the State Treasurer, Treasurer's staff, and the State's Consultant on all significant matters pertaining to its firm's ownership, investment style and philosophy, changes in personnel, significant client departures and periods of under performance;
- e) Be a registered investment advisor under the Investment Advisor's Act of 1940 as amended, unless the investment manager is retained for management of Alternative Investments.

External and Internal Managers:

- a) Adhere to the investment management style, concepts and principles for which they were hired by the State;
- b) Execute all transactions for the benefit of the State with brokers and dealers qualified to execute institutional orders on an ongoing basis seeking the best cost of execution for the State and where appropriate, facilitate the recapture of commissions on behalf of the State;
- c) Reconcile monthly accounting, transaction and asset summary data with custodian valuations and communicate and resolve any significant discrepancies with State's Consultant and custodian.

**3.13 State Auditor Responsibilities.** The State Auditor shall:

- a) Maintain the State's accounting records, vouchers, documents, contracts and fiscal accounts;
- b) Order all payments into and out of the funds held in the Treasury;

- c) Serve as the State's controller, chief accountant, chief fiscal officer, and State payroll officer and to supervise the issuance of all warrants (W.S. 9-1-402);
- d) Audit and settle all claims against the State;
- e) Draw all warrants upon the Treasury;
- f) Provide an annual financial report to the fiscal affairs of the State, prepared in conformance with generally accepted accounting principles (W.S. 9-1-403);
- g) The State Auditor's Office is required by the 1993 Session Law, Chapter 225, to have an audit resulting in the completion of the Wyoming Comprehensive Annual Financial Report (CAFR). In addition, the State Auditor's Office will coordinate the single audit of the State's federal programs to comply with federal requirements.

#### **Section 4. Fund Categories**

The following is a list of the various funds and the classification to which each fund belongs. Each fund has a separate sub-policy at the end of this Master Investment Policy, which addresses issues that are specific to each fund.

- a) State Agency Pool: A non-permanent fund which dispenses income and capital gains;
- b) Permanent Mineral Trust Fund: A permanent fund which dispenses income and capital gains;
- c) Permanent Land Fund: A permanent fund which dispenses income and capital gains;
- d) Common School Permanent Land Fund: A permanent fund which dispenses income and capital gains;
- e) University Permanent Land Fund: A permanent fund which dispenses income and capital gains;
- f) Hathaway Scholarship Fund: A permanent fund which dispenses income and capital gains;
- g) Higher Education Endowment Fund: A permanent fund which dispenses income and capital gains;
- h) Workers' Compensation: A non-permanent fund which retains income and capital gains within the fund's portfolio;
- i) Tobacco Settlement Trust Fund: A non-permanent fund which dispenses income and capital gains;
- j) WYO-STAR: A non-permanent fund which dispenses income and capital gains.

#### **Section 5. Asset Allocation Guidelines and Rebalancing Policy**

The target asset allocation guidelines are outlined in the sub-policy for each separate fund. The Treasurer's Office shall maintain internal policies and procedures with regards to rebalancing.

#### **Section 6. Cash Holdings**

It is the policy of the Board for equity managers to be fully invested at all times, except in anticipation of large withdrawals. Equity managers should maintain less than five percent (5%) of their portfolios in cash equivalents except for periods of short-term portfolio repositioning not to exceed five (5) trading days. Fixed income managers can maintain higher cash balances (i.e., barbell strategies necessitate this exposure to cash). An exception will be made for Alternative Investments.

#### **Section 7. Pooled/Commingled Investments**

**7.1 Commingled Investments.** A commingled investment is an instrument where there is a pooling of securities owned by multiple clients for diversification and cost benefits. With commingled investments, investment managers cannot tailor the portfolio to suit client specific guidelines.

**7.2 Restricted Securities.** Investments of permanent funds in mutual or commingled funds which invest in securities which the State could not own directly are permitted, so long as the overall characteristics of the mutual or commingled fund (e.g., primary strategy, average credit quality) are consistent with this policy. All diversified money market funds shall comply with W.S. 9-4-831(g), Investment of Public Funds.

### **7.3 Mutual Fund Investments.**

- a) With the approval of the Board, the State Treasurer may invest in a diversified mutual fund as long as it is registered under the Securities Act of 1933 and Investment Company Act of 1940, as amended, and has qualified under state registration requirements, if any, to sell shares in this state;
- b) The diversified mutual fund must be purchased at the current net asset value.

## **Section 8. Permissible Investments**

**8.1 Statutory Provisions.** The investment of funds by the Treasurer's office and managers shall comply with applicable statutory provisions. Some of these statutes are listed below:

- a) W.S. 2-3-301 Standard for Fiduciaries;
- b) W.S. 9-4-715 Permissible Investments;
- c) W.S. 9-4-716 State Investment Policy; Investment Consultants;
- d) W.S. 9-4-717 Additional Investment Matters;
- e) W.S. 9-4-718 Investment Managers;
- f) W.S. 9-4-831 Investment of Public Funds;
- g) Title 9, Chapter 4, Article 11 Tax and Revenue Anticipation Notes.

**8.2 Public Equity Security Restrictions.** All public equity investments, over-the-counter (OTC) securities, and other equity related securities shall be limited to securities that are actively traded on U.S. exchanges or Non-U.S. exchanges including the NASDAQ. Public equity holdings shall be restricted to companies which have a history of more than three years continuous operation (current firm and/or predecessor firm), unless the contract with the investment manager specifically provides otherwise. Furthermore, securities that are acquired as the result of corporate actions are permitted.

As stated in W.S. 9-4-715(b):

The state treasurer, or his designee, which shall be registered under the Investment Advisor's Act of 1940, or any bank as defined in that act, upon written authority, may invest monies of the permanent funds, in securities but not more than fifty-five percent (55%) shall be invested in common stocks.

**8.3 Alternative Investment Restrictions.** Alternative Investments which the State obtains in the form of a security shall follow the process outlined in W.S. 9-4-715(a), W.S. 9-4-715(c) and W.S. 9-4-715(e). Alternative Investments and strategies encompass a broad range of securities and investments. No specific restrictions are made except that leverage, if utilized, must be limited to less than fifty percent (50%) at the limited partnership level in which the State is an investor; provided, however, for core real estate investments, leverage should not exceed forty percent (40%) across the entire portfolio and for non-core real estate managers, there are no specific limits on leverage.

## Section 9. Prohibited Investments for Separate Account Situations

The following investments are prohibited in separate account situations (i.e., where the investment manager can tailor the investment portfolio to comply with State guidelines and the securities are not commingled with those of other clients):

**9.1 Self-dealing Transactions.** Investment managers cannot purchase or hold any security that is issued by a corporation where the investment management firm may have any type of ownership relationship. An example of an exception can be found in the case where an investment manager is attempting to replicate an index in which the investment manager's firm or parent's security is represented. Since the manager is simply attempting to replicate the index, such holding does not represent a self-dealing transaction. Another exception may be made for Alternative Investment managers where investments may be made in vehicles by the investment managers for the managers' account and/or the managers' professionals and/or families.

**9.2 Floating Rate Securities.** Floating rate securities, the interest rate of which does not reset as a result of changes in one or more reference interest rates, are prohibited. Examples of prohibited floating rate securities are those whose interest rate reset is based on an index of commodities or equity securities. Reverse floaters are also prohibited.

**9.3 Individual Certificates of Deposit and Time Deposits.** Individual certificates of deposit and time deposits may not exceed one hundred thousand dollars (\$100,000) unless they are one hundred percent (100%) collateralized by eligible securities or fully covered by a surety bond.

**9.4 Letter Stock.** Letter stock and other unregistered equity securities are prohibited.

**9.5 Commodities.** Commodities or commodity contracts are prohibited. An exception is made if the investment is part of an Alternative Investment.

**9.6 Real Estate.** Real Estate, either private or public, is prohibited. An exception is made if an external investment manager that has been retained as a dedicated real estate investment manager manages the account, if the investment is part of an Alternative Investment or as provided in W.S. 9-4-715(k), or if Real Estate Investment Trusts (REITs) are included in the composition of the manager's stated benchmark.

**9.7 Natural Resources.** Natural resource properties such as oil, gas or timber are prohibited. An exception is made if the investment is part of an Alternative Investment or a Legislatively Designated Investment (LDI).

**9.8 Short Sales and Margin Transactions.** Short sales and margin transactions are prohibited. An exception is made for external fixed income managers' short positions using futures, forwards, options, and swaps; or if the investment is part of an Alternative Investment.

## Section 10. Derivatives Policy

Selected financial derivatives may be used within prudent limits to manage risk. Managers must review their use of derivatives with the Board prior to employing derivative tactics. Further, investment managers should not materially alter their portfolio risk profile beyond that which is implied by their investment style. The use of derivatives in pursuit of strategies to achieve "above market" performance is considered speculative and is strictly forbidden with the exception of their inclusion in Alternative Investment

portfolios. Under no circumstances should leverage be employed in the purchase of securities with a possible exception for Alternative Investment portfolios.

Derivatives may be utilized within Alternative Investment portfolios provided that the instruments and strategies utilized are consistent with the investment policy of the Alternative Investment vehicle and that the State's Consultant has reviewed, approved, and is monitoring their use. The State's Consultant will monitor these instruments and strategies used to ensure that they are not expected to materially or adversely alter the portfolio risk profile in any given market cycle.

## **Section 11. Portfolio Guidelines**

### **11.1 Pertaining to the Overall Investment Program.**

a) Not more than one percent (1%) of the outstanding common shares of any corporation shall be owned by the State. An exception may be made for Alternative Investments;

b) Not more than one and one-half percent (1.5%) of the total book value of permanent funds shall be invested in the common stock of any corporation. An exception may be made for Alternative Investments;

c) The State Treasurer or designee can invest in any class of security not otherwise authorized by law, provided the security was authorized by law at the time it was acquired and the total book value of all securities not authorized by law shall not exceed one percent (1%) of the total book value of the permanent fund accounts, and provided further that any such investment shall be in accordance with the fiduciary standards specified in W.S. 2-3-301. An exception may be made for Alternative Investments;

d) Not more than fifty-five percent (55%) of the total book value of permanent funds shall be invested in equities; and

e) Security selection, portfolio structure and timing of purchase and sales are delegated to the manager.

f) The Board is concerned with terrorism and human rights violations occurring worldwide, yet recognizes its fiduciary responsibility to invest only in the best economic interest of the portfolio. While the Board cannot make investments based on social or political objectives, it does consider the economic effects of social and humanitarian issues in the analysis of investments. The Board seeks to avoid investments that support terrorism or the violation of human rights. As such, the Board will require its investment managers to acknowledge that they will seek to avoid such investments.

Specifically, Investment Managers are required to check portfolio holdings no less frequently than quarterly against the companies listed on the Specially Designated Nationals List and the countries listed on the Lists of Sanctioned Countries, maintained by the U.S. Treasury Department Office of Foreign Assets Control ("OFAC"), to ensure that the companies or countries on the list are not represented in the portfolios. If a current holding appears on the list at the time of the quarterly check, the Manager will eliminate the position from the portfolio within a reasonable period of time and will not make additional purchases unless the issuer is removed from the OFAC list.

### **11.2 Pertaining to Individual External Investment Managers.**

#### **a) Core Plus Fixed Income Managers.**

i) The objectives of the State's core plus fixed income investments are to provide stable income to the State, yield enhancement and diversification of the State's fixed income portfolios, safety of principal and consistent returns above the fixed income market as measured by the Lehman Brothers Aggregate Bond Index. The funds will be actively managed by external investment management firms with a demonstrated track record in managing institutional core plus fixed income portfolios.

- ii) Obligations issued or guaranteed by the U.S. government, U.S. agencies or U.S. government-sponsored corporations and agencies are eligible without limit.
- iii) Non-US dollar denominated securities are permitted, but shall comprise no more than twenty percent (20%) of the portfolio market value. Un-hedged non-dollar denominated securities shall comprise no more than ten percent (10%) of the portfolio market value.
- iv) Private mortgage-backed and asset-backed securities are limited to ten percent (10%) per issuer, unless the collateral is credit-independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is twenty-five percent (25%) per issuer.
- v) Obligations of other issuers are subject to a ten percent (10%) per issuer limit excluding investments in commingled vehicles.
- vi) Commercial mortgage-backed securities are permitted but shall comprise no more than five percent (5%) of the portfolio market value.
- vii) Commercial paper of all issuers shall not exceed five hundred million dollars (\$500,000,000).
- viii) Duration must fall in the range of plus or minus twenty percent (20%) of the Lehman Brothers Aggregate Index.
- ix) Minimum Issue Credit Rating at time of purchase will be:
  - A1/P1 or equivalent for commercial paper;
  - B for corporate bonds;
  - AA for Mortgage-Backed Securities;
  - AA for Asset-Backed Securities Standard and Poor's, Fitch, or Moody's ratings are acceptable. Where the issue is split rated, the lower of the ratings will apply.
- x) Average portfolio credit quality must be A or better.
- xi) A maximum of twenty percent (20%) of portfolio market value may be invested in U.S. securities rated below investment grade. Below investment grade is defined as Ba1/BB+/BB+ or worse.
- xii) Emerging market securities are permitted, but shall comprise no more than ten percent (10%) of the portfolio market value.
- xiii) A minimum number of twenty-five (25) securities shall be held.
- xiv) Investments in mortgage interest only and principal only securities or their derivations are prohibited.
- xv) Private placements are not allowed.
- xvi) Futures, forwards, options, and/or swaps are permitted for purposes of managing duration, yield curve, and sector risk, and as a substitute for cash securities, subject to Section 10 of this policy.

**b) Corporate Fixed Income Managers.**

- i) The objectives of the State's corporate fixed income investments are to provide stable income to the State, yield enhancement and diversification of the State's fixed income portfolios, safety of principal, and consistent returns above the corporate fixed income market as measured by the Lehman Brothers Credit Index. The funds will be actively managed by external investment management firms with a demonstrated track record in managing institutional corporate bond portfolios.
- ii) Obligations of specific issuers are subject to a ten percent (10%) per issuer limit, excluding investments in commingled vehicles.
- iii) Duration must fall in the range of plus or minus twenty percent (20%) of the Lehman Brothers Credit Index.
- iv) Minimum Issue Credit Rating at the time of purchase will be:
  - A1/P1 or equivalent for commercial paper;
  - B for individual securities Standard and Poor's, Fitch, or Moody's ratings are acceptable.
  - Where the issue is split rated, the lower of the ratings will apply.
- v) Average portfolio credit quality must be A or better.
- vi) A maximum of ten percent (10%) of portfolio market value may be invested in U.S. securities rated below investment grade. Below investment grade is defined as Ba1/BB+/BB+ or worse.

vii) Future, forwards, options, and/or swaps are permitted for purposes of managing duration, yield curve, and sector risk, and as a substitute for cash securities, subject to Section 10 of this policy.

**c) Mortgage Fixed Income Managers.**

i) The objectives of the State's mortgage fixed income investments are to provide stable income to the State, yield enhancement and diversification of the State's fixed income portfolios, safety of principal, and consistent returns above the mortgage fixed income market as measured by the Lehman Brothers Mortgage Index. The funds will be actively managed by external investment management firms with a demonstrated track record in managing institutional mortgage portfolios.

ii) Obligations of specific issuers are subject to a ten percent (10%) per issuer limit, excluding investments in commingled vehicles and U.S. agencies.

iii) Duration must fall in the range of plus or minus twenty percent (20%) of the Lehman Brothers Mortgage Index.

iv) Minimum Issue Credit Rating at the time of purchase will be:

- A1/P1 or equivalent for commercial paper;

- BBB for individual securities;

- Standard and Poor's, Fitch, or Moody's ratings are acceptable. Where the issue is split rated, the lower of the ratings will apply.

v) Average portfolio credit quality must be AA or better.

vi) Futures, forwards, options, and/or swaps are permitted for purposes of managing duration, yield curve, and sector risk, and as a substitute for cash securities, subject to Section 10 of this policy.

**d) Global/Emerging Market Fixed Income Managers.**

i) The objectives of the State's global fixed income investments are to provide stable income to the State, yield enhancement and diversification of the State's fixed income portfolios, safety of principal, and consistent returns above the global/emerging fixed income market as measured by a blend of the following indices: thirty-two and one-half percent (32.5%) Lehman Global Aggregate ex-US Hedged, five percent (5%) Lehman Global Aggregate ex-US Unhedged, forty-seven and one-half percent (47.5%) JP Morgan EMBI Global, and fifteen (15%) JP Morgan GBI-EM Global Diversified Unhedged (the "Global Benchmark"). The funds will be actively managed by external investment management firms with a demonstrated track record in managing institutional global and emerging market bond portfolios.

ii) Obligations of specific issuers are subject to a ten percent (10%) per issuer limit, excluding sovereign debt of Organization for Economic Co-operation and Development (OECD) governments, US agencies, and investments in commingled vehicles.

iii) Duration must fall in the range of plus or minus twenty percent (20%) of the Global Benchmark.

iv) Minimum Issue Credit Rating at the time of purchase will be:

- A2/P2 or equivalent for commercial paper;

- B- for individual securities Standard and Poor's, Fitch, or Moody's ratings are acceptable;

- Where the issue is split rated, the lower of the ratings will apply.

- Where a security is not rated at the issue level, the issuer rating will be relied upon.

v) Average portfolio credit quality must be BBB or better.

vi) A maximum of forty percent (40%) of portfolio market value may be invested in securities rated below investment grade. Below investment grade is defined as Ba1/BB+/BB+ or worse.

vii) Future, forwards, options, and/or swaps are permitted for purposes of managing duration, yield curve, and sector risk, and as a substitute for cash securities, subject to Section 10 of this policy.

viii) The investment manager, as part of managing the account, can take investment positions in currency and currency forwards, futures and options so long as 70% of the overall currency exposure is hedged to the US dollar.

**e) Public Equity Managers.**

i) The objectives of the State's public equity investments are to provide the state with total return, capital appreciation, protection against inflation risk and consistent returns as measured by the appropriate stock index. The funds will be managed by external investment management firms that have a demonstrated record in managing institutional equity portfolios. The State shall employ diversification by investment style (value versus growth) and capitalization (small, mid, large).

ii) At the time of purchase, a maximum of five percent (5%) of the total stock portfolio of a manager may be invested in any one security.

iii) A stock position can be allowed to grow from five percent (5%) to seven and one-half percent (7.5%) of market value.

iv) A maximum of five percent (5%) of the outstanding float of shares of one company may be held.

v) The maximum allowable in any sector, as defined as Global Industry Classification System Level 1, is two and one-half (2.5) times the respective benchmark weighting, unless the contract with the investment manager specifically provides otherwise.

vi) A minimum number of thirty-five (35) securities shall be held.

**f) Cash and Extended Cash Managers.**

i) A maximum of ten percent (10%) of total assets shall be placed in the securities of one issuer except for government securities.

ii) Investment in any single issuer must not exceed five percent (5%) of the outstanding issues of that issuer.

**g) Private Equity Managers.**

i) The objectives of the State's private equity investments, which are considered to be Alternative Investments, are to provide the State with total return, capital appreciation, protection against inflation risk and competitive returns as measured by the appropriate index. The funds will be actively managed by external investment management firms that have a demonstrated record in managing institutional private equity portfolios. The State may employ diversification by sub-asset class (private equity vs. venture capital vs. special situations) and investment style (early vs. late stage, mid market vs. large cap market).

ii) At the time of purchase, a maximum of twenty-five percent (25%) of the value of any private equity partnership may be invested in any one company or security issued by any one company. An exception may be made when a special purpose vehicle is set up as part of an overall pool where the overall pool satisfies this requirement.

iii) At the time of purchase, each investment vehicle (e.g. limited partnership) shall, when fully drawn, invest directly or indirectly in a minimum of twelve (12) underlying companies.

**h) Real Estate Managers.**

i) The objectives of the State's core real estate investments, which are considered to be Alternative Investments, are to provide the State with total return, including income and capital appreciation, as well as protection against inflation risk and consistent returns as measured by the appropriate real estate index. External investment management firms that have a demonstrated record in managing institutional real estate portfolios will actively manage the funds.

ii) The core portfolio shall consist of well-leased, high quality, income producing institutional properties.

iii) The core portfolio will be adequately diversified by geographical region, as well as by property type.

iv) The objectives of the State's non-core real estate investments, which are considered to be Alternative Investments, are to provide the State with total return, including capital appreciation with possible provision for income, as well as protection against inflation risk and returns in excess of a core real estate index or other appropriate indices or benchmarks. External investment management firms that have a demonstrated record in managing real estate portfolios will actively manage the funds.

v) The non-core portfolio may consist of properties of varying quality, investment size, property type and geographic concentration.

#### **i) Overlay Strategy Managers.**

i) Overlay strategies, which are considered to be Alternative Investments, are intended to complement underlying investments by adding excess return independent of the underlying portfolio. The overlay strategy's investment process is discrete and may be used for income or risk management purposes. The strategy is long-term in nature.

ii) The objective of the overlay strategy is to add incremental excess return (or alpha) to the underlying strategy. The overlay strategy is managed independently of any other strategy. Overlay strategies accomplish this goal through the use of derivatives. Derivatives allow the investment manager to augment the desired economic exposure and will have no cash flow impact on the underlying portfolio. Conversely, the underlying portfolio directly impacts the size and scope of the overlay.

iii) Investment guidelines for overlay strategies are contained in the manager's investment contract and reinforce the variants under which an overlay strategy may be applied to the overall portfolio.

iv) The options overlay portfolio will consist of Commodity Futures Trading Commission exchange traded instruments approved by the contract with the advisor. Any and all OTC options will adhere to an approved list of counter parties mutually agreed to by staff of the State Treasurer's Office and the investment manager. The duration of the options positions will be less than six (6) months unless otherwise agreed to by staff of the State Treasurer's Office and the investment manager.

v) The portfolio will opportunistically hold long and short positions in the global equity and bond markets in order to manage the volatility in the options portfolio. The number of positions will vary over time.

#### **j) Absolute Return Managers.**

i) The objectives of the State's absolute return investments, which are considered to be Alternative Investments, are to provide the state with total return, capital appreciation, protection against inflation risk, and consistent returns measured by the appropriate index. The fund will be actively managed by external investment management firms that have a demonstrated record in managing institutional hedge fund of funds portfolios.

ii) The portfolio shall be diversified across underlying hedge fund strategies and hedge fund managers.

## **Section 12. Risk Management**

**12.1 Issuer or Secondary Source Failure.** The State Treasurer shall seek to control the risk of loss due to the failure of a security issuer or secondary source. Such risk shall be controlled by constructing investment portfolios using the prudent investor rule, by ensuring adequate portfolio diversification, by collateralization as required by law and by statutory guidelines.

**12.2 Change in Investment Grade.** The policy does not require removal of a security from a portfolio should it fall below the credit quality guidelines after purchase. In the event of such a downgrade, the investment manager must notify the State and provide any evaluation and a plan of action. It will be the

policy of the State Treasurer to review what caused the security to fall below the credit quality guidelines and to make an orderly removal of that security in a timely manner should that removal be justified. This Section does not apply to Section 8.4 Convertible Security Restrictions.

### **Section 13. Safekeeping**

The State Treasurer shall contract with an authorized safekeeping agent for safekeeping securities owned by the State as part of its investment portfolio or held as collateral to secure certificates of deposits or repurchase agreements. All securities transactions shall be conducted on a delivery versus payment basis to the State Treasurer's safekeeping bank or to the State Treasurer's office. The State Treasurer's office or custodian shall have custody of all securities purchased or held and all evidence of deposits and investments of public funds.

### **Section 14. Voting of Proxies**

The Board allows investment managers to vote proxies with the parameter that (i) the managers keep the Board apprised of their general proxy policy and (ii) the managers notify the Board of controversial proxies.

### **Section 15. Securities Lending**

As part of this investment strategy, the State Treasurer may retain the services of a custodial bank or an independent securities lending agent to supervise a program of securities lending in exchange for a fee or other consideration. Supervision of the program shall include:

- a) Procedures to review the creditworthiness of all borrowers;
- b) Requirements for full collateralization of all loans;
- c) Other methods and procedures required by the Board for securing the lending program. (W.S. 9-4-717(d) Securities Lending)

### **Section 16. Commission Recapture Program**

The State Treasurer's office shall monitor the commission recapture and discount brokerage programs to insure that investment managers provide the best effort to meet their commission recapture guidelines (i.e., requested amount of commission recaptured). The State Treasurer shall issue directed brokerage letters (limited to the commission recapture program) to the managers on an annual basis. In determining the amount to be directed, consideration should be given to the type of investment manager (i.e., small capitalization managers may not be able to direct as much as large capitalization managers) and the amount of external research the manager buys. The quality of execution should never be jeopardized and the State Treasurer's office should periodically monitor the quality of execution managers are achieving through a trading cost evaluation survey.

### **Section 17. Liquidity**

Liquidity shall be achieved by investing in securities with active secondary markets with the exception of Alternative Investments. A security may be liquidated to meet unanticipated cash requirements, to re-deploy cash into other investments expected to outperform current holdings, or to otherwise adjust the

portfolio. Sufficient liquidity must be maintained to ensure payment to the State of the interest received from investments and any capital gains which occur from trading in the portfolio. This liquidity is the responsibility of the manager.

## **Section 18. Trades and Exchanges**

**18.1 Allowance to Sell or Exchange Securities.** Investment managers and the State Treasurer may sell or exchange securities in the course of daily management of specific funds. Such trades may be executed to raise cash, to shift maturity, to change asset mix, to enhance yield and to improve quality. The goal of all such trades is to maximize portfolio performance while minimizing risk.

**a) Security Swaps.** The State Treasurer and all investment managers will take advantage of security swap opportunities to improve portfolio yield. A swap which improves portfolio yield may be selected even if the transaction results in an accounting loss but only if such transaction complies with the requirements of W.S. 9-4-717(c).

**b) Marking to Market.** To account for market fluctuations and volatility, the State Treasurer's office or its agent (independent pricing agent) will mark to market all securities at least monthly to the extent possible with exceptions made for Alternative Investments where values are reflected as available. If a significant market event takes place during the month that impacts the value of the portfolio, the State Treasurer's office or its agent will mark the portfolio to market to determine the impact on the portfolio. State officials responsible for investment portfolio reporting should determine the market value of all securities in the portfolio on at least a quarterly basis to the extent possible with exceptions made for Alternative Investments where values are reflected as available. These values should be obtained from a reputable and independent source where possible with some exceptions made for Alternative Investments and a report made to the Board at least quarterly by the State's Consultant. It is recommended that the report include the market value, book value and unrealized gain or loss of the securities in the portfolio.

**18.2 Best Price and Execution.** Transactions shall be executed on the basis of "best price and execution" for the sole benefit of the State and other limited partners in the case of investments made through limited partnership vehicles. Any violation of these guidelines is to be corrected immediately upon discovery and reported to the State Treasurer and the State's Consultant. A realized loss to the State resulting from a violation of these guidelines will require reimbursement to the State. Other remedies may be sought if investments are made through limited partnership vehicles.

## **Section 19. Procedures for Selecting and Reviewing Investment Managers**

**19.1 Review Process.** When it is decided that an investment manager is to be hired, the State Treasurer and the State's Consultant will select up to four finalists to make an oral presentation to the Board. Evaluation factors will include one-year, five-year and ten-year performance records and the associated risks taken to achieve the returns, the quality and stability of the investment personnel of each company, adherence to philosophy/style and the fees charged by each company. The State Treasurer shall only consider investment firms that have a verifiable five-year Chartered Financial Analyst Institute compliant track record with respect to the type of investments regarding which the manager will provide services or investment managers employed by an organization and chartered bank trust company with trust assets in excess of one billion dollars (\$1,000,000,000). An exception may be made for Alternative Investments.

**19.2 Selection Process.** The Board shall make a selection based upon the interview and the State Treasurer shall submit a contract for review by the Attorney General. The contract shall provide for its

termination by the State with thirty (30) days notice to the manager. An exception may be made for Alternative Investments.

**19.3 Performance Monitoring.** Each investment manager shall, at least quarterly, provide a report to the State Treasurer describing the manager's performance relative to mutually agreed upon industry indices and reflecting all brokerage fees and other fees or expenses paid by or fees earned by the manager, which are paid by the State under the contract with such investment manager. The State Treasurer shall monitor monthly statements and receive quarterly audited performance reports from the State's Consultant. The State's Consultant shall monitor at least quarterly the State's investment record for each manager under contract to determine whether or not that manager is performing up to the standard required by the benchmark of performance specified in the manager's contract and report to the Board. If at any time the standard required is not being met, the State Treasurer shall report to the Board and provide a recommendation. The Board will then determine what action will be taken by the State Treasurer.

**19.4 Policy Monitoring.** Each investment manager shall file a quarterly investment policy compliance report with the State's Consultant.

**19.5 Manager Alerts.** Investment managers are required to apprise the Board and to keep the State's Consultant informed of any material changes in their respective firms (i.e., change in personnel, ownership and policy).

**19.6 Other Considerations.** In addition to achieving benchmark expectations as described in Section 20, managers will be reviewed for consistency of style and client service.

**19.7 Trading Cost Analysis.** As part of the evaluation of the investment managers, the Board shall receive an annual trading cost evaluation study conducted by an independent party to analyze each manager's ability to trade the portfolios, the associated trading costs, and the distribution of trades.

**19.8 Termination.** The decision to terminate an investment manager will be by majority vote of the Board (W.S. 9-4-718(a)(iv)). The State Treasurer may recommend the termination of an investment manager to the Board.

**19.9 Transition Management.** The State Treasurer may retain the services of a firm providing transition management products to effect transitions from active external investment managers to successor managers. Total transition charges will be considered in the selection and evaluation of these vendors including both commission and market impact costs.

## **Section 20. Nominal Return Benchmarks**

Below are the benchmarks for the asset classes listed. Investment performance shall be evaluated against these standards over a full market cycle, approximated by the most recent five year period.

### **Core Plus Fixed Income:**

- (1) Lehman Brothers Aggregate Bond Index plus fifty (50) basis points, net of fees; and
- (2) Top 40th percentile of peer manager universe as measured by the State's Consultant, gross of fees.

### **Corporate Fixed Income:**

- (1) Lehman Brothers Credit Index plus fifty (50) basis points, net of fees; and
- (2) Top 40th percentile of peer manager universe as measured by the State's Consultant, gross of fees.

**Mortgage Fixed Income:**

- (1) Lehman Brothers Mortgage Index plus fifty (50) basis points, net of fees; and
- (2) Top 40th percentile of peer manager universe as measured by the State's Consultant, gross of fees.

**Global/EM Fixed Income:**

- (1) The Global Benchmark as outlined in Section 11.2(d) plus fifty (50) basis points, net of fees; and
- (2) Top 40th percentile of peer manager universe measured by the State's Consultant, gross of fees.

**Large Cap Growth Equity:**

- (1) Russell 1000 Growth Index by one hundred (100) basis points, net of fees; and
- (2) Top 40th percentile of large cap growth peer universe as measured by the State's Consultant, gross of fees.

**Large Cap Value Equity:**

- (1) Russell 1000 Value Index by one hundred (100) basis points, net of fees; and
- (2) Top 40th percentile of large cap value peer universe as measured by the State's Consultant, gross of fees.

**Convertible Securities:**

- (1) Merrill Lynch All Convertibles All Quality Index by one hundred (100) basis points, net of fees.

**International Equity:**

- (1) MSCI EAFE Index by one hundred (100) basis points, net of fees; and
- (2) Top 40th percentile of international equity peer universe as measured by the State's Consultant, gross of fees.

**Indexed Equity:**

- (1) Meet performance of Index, before fees.

**Enhanced Index Equity:**

- (1) S&P 500 Index by seventy-five (75) basis points, net of fees; and
- (2) Top 40th percentile of core equity peer universe as measured by the State's Consultant, gross of fees.

**Small Cap Equity:**

- (1) Russell 2000 Index by one hundred (100) basis points, net of fees; and
- (2) Top 40th percentile of small cap equity peer universe as measured by the State's Consultant, gross of fees.

**Mid Cap Equity:**

- (1) S&P 400 Index by one hundred (100) basis points, net of fees; and
- (2) Top 40th percentile of mid cap equity peer universe as measured by the State's Consultant, gross of fees.

**Small/Mid Cap Equity:**

- (1) Russell 2500 Index or the appropriate style specific Russell 2500 Index by one hundred (100) basis points, net of fees; and
- (2) Top 40th percentile of small/mid cap equity peer universe as measured by the State's Consultant, gross of fees.

**Private Equity:**

- (1) S&P 500 Index by five hundred (500) basis points, both gross of and net of all fees (including underlying fund manager fees); and
- (2) Above median in a peer universe as measured by the State's Consultant, net of fees.

**Overlay Strategies:**

- (1) Absolute return of seventy-five to one hundred seventy-five (75 – 175) basis points, net of fees, above a zero benchmark.

**Core Real Estate:**

- (1) NCREIF Fund Index – Open-End Diversified Core Equity (NFI-ODCE) by seventy-five (75) basis points, net of fees; and
- (2) Above median in a peer universe as measured by the State's Consultant, net of fees.

**Non-core Real Estate:**

- (1) NCREIF Property Index (NPI) by an appropriate risk premium, net of fees. This risk premium will vary depending on investment manager strategy and should be consistent with the objectives stated in the investment manager's offering documents; and
- (2) Above median in a peer universe as measured by the State's Consultant, net of fees.

**Absolute Return:**

- (1) 90-Day T-Bills by five hundred (500) basis point, net of all fees (including underlying fund manager fees);
- (2) HFN Fund of Funds Multi-Strategy Average Index, net of all fees (including underlying fund manager fees); and
- (3) Above median in a peer universe as measured by the State's Consultant, net of fees.

**Cash:**

- (1) Monitored Repurchase Agreement Rate plus fifteen (15) basis points, net of fees; and
- (2) 90-Day T-Bills, net of fees, for the cash equivalents allocation.

**Extended Cash:**

- (1) Equal-weighted blend of the Merrill Lynch 1-3 Year Agency, 1-3 Year Treasury, and 0-3 Year Mortgage Indices, net of fees.

## Section 21. Sub-Policies on Funds

### 21.1 Sub-Policy for the State Agency Pool

**1. Fund Description.** This sub-policy applies to the funds of the State Agency Pool administered by the State Treasurer. This fund is a non-permanent fund, which dispenses income and capital gains out of the fund.

**2. Philosophy and Investment Strategy.** The State Agency Pool consists of a pooling of money from many different agencies which are not specifically invested for that agency. Pooling the available monies of many State agencies is extremely advantageous for all State agencies. The State agencies have the advantage of better income from their invested funds, while maintaining liquidity. The monies are invested throughout the spectrum of investment maturities. There is a requirement for liquidity from this pool to meet the day-to-day cash flow needs of the State. Cash is invested in a cash portfolio and an extended cash portfolio. The State Treasurer's Office handles the actual cash management, determining what amounts are available to invest.

**a) Primary Investment Goal.** Safety of capital, yield and liquidity are the primary investment goals.

**b) Target Asset Allocation.** The target asset allocation is as follows:

|                        |     |
|------------------------|-----|
| Convertibles           | 3%  |
| Fixed Income*          | 87% |
| Core Plus              | 39% |
| Mortgage               | 13% |
| Corporate              | 7%  |
| Long Duration          | 4%  |
| Internal Portfolio     | 17% |
| Global/Emerging Market | 7%  |
| Cash Equivalents       | 10% |

\* The total Fixed Income allocation is reduced by LDIs and Other Wyoming Related Investments.

The target established above represents the long-term asset allocation objectives for the fund. However, the State Treasurer's Office shall have the right to make periodic adjustments to the above-listed allocations as they see fit, commensurate with the economic environment, ongoing cash flow activity, and the liquidity needs of the fund.

**c) Liquidity Requirements.** Liquidity shall be maintained to facilitate trading, to move money between asset classes, and to meet cash needs as determined by the State Treasurer's Office.

**d) Maturity Requirements.** Investments of any maturity may be included in the State Agency Pool. There is not a maximum maturity limitation. The average duration of the portfolio should be plus or minus twenty percent (20%) of the duration of the Lehman Aggregate Bond Index or Custom Index, whichever is applicable. Cash in this fund will be invested in a cash portfolio and an extended cash portfolio. If an instrument is subject to an unconditional put or unconditional demand feature, its final maturity will be the earlier of the date noted on the face of the instrument as the date on which the principal amount must be paid or the date on which the principal amount of the instrument can be recovered through demand. Sinking fund securities and asset backed issues with periodic principal repayment will be measured by their anticipated weighted average cash flows for the purpose of calculating their duration.

i) Cash Portfolio: The portfolio's weighted average maturity is not to exceed 90 days. All securities must have a maximum maturity of 365 days. The maximum average cash flow weighted duration of the portfolio must not exceed 90 days. The market value of the portfolio must remain within plus or minus one-half percent (0.5%) of one percent (1%) of amortized cost.

ii) Extended Cash Portfolio: Maximum average cash flow weighted duration is not to exceed three (3) years. Individual securities must not exceed a cash flow weighted duration of five (5) years. The extended portion of the cash portion of the account may not exceed thirty-five percent (35%) of the market value of the portfolio at the time of purchase.

**e) Diversification.** The diversified bond portfolio part of the fund is expected to contain a majority of longer term U.S. Treasuries, government agencies, and corporate bonds.

The rest of this fund's diversification Section refers to the cash portfolio and extended cash portfolio in the State Agency Pool.

Currency must be in U.S. dollar denomination only. The cash portfolios will seek to be invested fully in permissible investments as of the close of business on each day. The account may only purchase securities issued or guaranteed by a corporation or other entity organized under the laws of a State of the United States and only securities of this type referred to in the first clause of Section 3(a)(2) of the Securities Act of 1933 as amended.

The cash portfolio and extended cash portfolios' permissible investments are the following securities:

- i) Asset-Backed Securities: Limited to automobile receivables, credit receivables, collateralized mortgage obligations (CMO) or pass-throughs, the collateral for which is securities issued by GNMA, FNMA, FHLMC or notes fully guaranteed as to principal and interest by the Small Business Administration;
- ii) Master Notes;
- iii) Bank Notes;
- iv) Medium Term Notes;
- v) Bankers' Acceptances;
- vi) Municipal Bonds;
- vii) Certificates of Deposit;
- viii) Municipal Notes;
- ix) Commercial Paper, including unregistered Promissory Notes;
- x) Called for Commercial Paper;
- xi) Repurchase Agreements (including term repurchase agreements)-Permitted collateral: Government securities. The minimum collateral required is one hundred and two percent (102%);
- xii) Corporate Bonds;
- xiii) Time Deposits - Restricted to obligations of financial institutions approved by Wyoming's Board of Deposits;
- xiv) Corporate Notes;
- xv) U.S. Government Securities;
- xvi) Floating Rate Notes including Obligations of the U.S. Treasury and Obligations of U.S. Government Agencies;
- xvii) Floating rate Certificates of Deposit;
- xviii) Guaranteed Investment Contracts (GICs) or synthetic GICs;
- xix) Instruments bearing floating or fixed interest rates.

Commercial paper must be rated A1+ or P1 by any Nationally Registered Statistical Rating Organization (NRSRO) (split ratings being permitted). The minimum long-term rating for bonds and notes

is BBB/Baa2. The security must be rated by at least one NRSRO. Such ratings, however, may decline thereafter without per se requiring the sale of the security. GICs must be rated AAA or equivalent by Moody's, Standard and Poor's or Fitch, or rated A+ by A.M. Best. A security without its own rating will be considered to be rated if its user's comparable securities are rated. In addition, long term ratings will be used only if the security is not rated and no security of the same issuer that is comparable in priority with such security is rated.

**f) Risk.** The fund has a diversified fixed income allocation to limit the degree of uncertainty in the pursuit of return.

**g) Return Expectation.** The long-term return expectation will be two hundred (200) basis points above the Consumer Price Index (CPI).

**h) Benchmark.** Custom Index weighting the fixed income allocation by the Lehman Brothers Aggregate Bond Index; the cash equivalents allocation by 90-Day U.S. T-Bills; and the extended cash allocation by an equal-weighted blend of the Merrill Lynch 1-3 Year Agency, 1-3 Year Treasury, and 0-3 Year Mortgage Indices.

## 21.2 Sub-Policy for the Permanent Mineral Trust Fund

**1. Fund Description.** This sub-policy applies to the funds of the Permanent Mineral Trust Fund administered by the State Treasurer. This fund is a permanent fund, which dispenses income and capital gains.

**2. Philosophy and Investment Strategy.** The corpus of the Permanent Mineral Trust Fund must be held inviolate. The Wyoming State Legislature has allocated, at times, a large portion of it to directed investments. Therefore, only the remaining portion is available for discretionary investments by the State Treasurer's Office. The fund must be managed to allow an extensive range of investment maturities that will provide for funds availability for directed investments as they come into existence as mandated by the Legislature. In addition, there is a specially managed portion of the Permanent Mineral Trust Fund, the corpus of which must be held inviolate. These funds are to be invested for the long term to produce a higher return without the cash flow or legislatively directed investments.

**a) Primary Investment Goal.** The primary investment goals are capital appreciation, total return, and protection against inflation.

**b) Target Asset Allocation.** The asset allocation is restricted by State statutes to no more than fifty-five percent (55%) equities. The target asset allocation is as follows:

|                        |      |
|------------------------|------|
| Large Cap US Equity    | 15%  |
| Small Cap US Equity    | 3%   |
| International Equity   | 13%  |
| Private Equity         | 4%   |
| Real Estate            | 7.5% |
| Absolute Return        | 7.5% |
| Convertibles           | 2%   |
| Fixed Income*          | 45%  |
| Core Plus              | 20%  |
| Mortgage               | 7%   |
| Corporate              | 4%   |
| Long Duration          | 2%   |
| Internal Portfolio     | 9%   |
| Global/Emerging Market | 3%   |
| Cash Equivalents       | 3%   |

\* The total Fixed Income allocation is reduced by LDIs and Other Wyoming Related Investments.

The target established above represents the long-term asset allocation objectives for the fund. However, the State Treasurer's Office shall have the right to make periodic adjustments to the above-listed allocations as they see fit, commensurate with the economic environment, ongoing cash flow activity, and the liquidity needs of the fund. It is also understood that the strategic allocation to alternative assets may differ from the target outlined for limited periods of time, due to the illiquid nature of these asset classes. Further, during the initial implementation of alternative asset classes, the allocation will fall below the minimum range until the program can be fully established.

**c) Liquidity Requirements.** Liquidity shall be maintained to facilitate trading, to move money between asset classes, and to meet cash needs as determined by the State Treasurer's Office. Liquidity must be maintained to move income generated during the year out of the fund.

**d) Maturity.** This pool is designed to be a long-term investment pool with the main objective to grow the capital over time. The average duration of the bond portfolio should be plus or minus twenty percent (20%) of the duration of the Lehman Aggregate Bond Index or Custom Index, whichever is applicable.

**e) Diversification.** The State Treasurer shall diversify the securities held in this fund to avoid a concentration of any single security type.

**f) Risk.** The fund has a diversified asset allocation to limit the degree of uncertainty in the pursuit of return. The equity cap also prohibits exacerbated levels of risk in the fund.

**g) Return Expectations.** The long-term return expectation will be four hundred (400) basis points above the CPI.

**h) Benchmark.** Custom Index weighting the fixed income allocation by the Lehman Aggregate Bond Index, the large cap domestic equity allocation by the S&P 500 , the small/mid cap domestic equity allocation by the Russell 2500 Index, the international equity allocation by the MSCI EAFE Index, the private equity allocation by the State's actual private equity investment returns, the core real estate allocation by the NCREIF Fund Index – Open-End Diversified Core Equity, the non-core real estate allocation by the NCREIF Property Index, the absolute return allocation by the HFN Fund of Funds Multi-Strategy Average Index, the convertibles allocation by the Merrill Lynch All Convertibles All Quality Index, and the State Agency Pool allocation by the State Agency Pool Custom Index as defined in Section 21.1 Sub-Section 2(h).

**i) Spending Policy.** The spending policy set by legislative determination is five percent (5%) of the previous five (5) year average market value of the fund, calculated on the first day of the fiscal year. Amounts spent must be sourced from investment income. Earnings in excess of the spending policy are appropriated from the general fund to the reserve account. When the reserve account reaches a balance that exceeds seventy-five percent (75%) of the current fiscal year's spending policy, the excess funds will be transferred from the reserve account to corpus.

### 21.3 Sub-Policy for the Permanent Land Fund

**1. Fund Description.** This sub-policy applies to the Permanent Land Fund, except for the Common School Permanent Land Fund and the University Permanent Land Fund. These funds are permanent funds, which dispense income and capital gains out of the fund.

**2. Philosophy and Investment Strategy.** The main objective of the fund is to produce maximized long-term investment return.

**a) Primary Investment Goal.** The primary investment goals are capital appreciation, total return and protection against inflation.

**b) Target Asset Allocation.** The asset allocation is restricted by State statutes to no more than fifty-five percent (55%) equities. The target asset allocation is as follows:

|                        |      |
|------------------------|------|
| Large Cap US Equity    | 15%  |
| Small Cap US Equity    | 3%   |
| International Equity   | 13%  |
| Private Equity         | 4%   |
| Real Estate            | 7.5% |
| Absolute Return        | 7.5% |
| Convertibles           | 2%   |
| Fixed Income*          | 43%  |
| Core Plus              | 19%  |
| Mortgage               | 7%   |
| Corporate              | 4%   |
| Long Duration          | 2%   |
| Internal Portfolio     | 8%   |
| Global/Emerging Market | 3%   |
| Cash Equivalents       | 5%   |

\* The total Fixed Income allocation is reduced by LDIs and Other Wyoming Related Investments.

The target established above represents the long-term asset allocation objectives for the fund. However, the State Treasurer's Office shall have the right to make periodic adjustments to the above-listed allocations as they see fit, commensurate with the economic environment, ongoing cash flow activity, and the liquidity needs of the fund. It is also understood that the strategic allocation to alternative assets may differ from the target outlined for limited periods of time, due to the illiquid nature of these asset classes. Further, during the initial implementation of alternative asset classes, the allocation will fall below the minimum range until the program can be fully established.

**c) Liquidity Requirements.** Liquidity shall be maintained to facilitate trading, to move money between asset classes, and to meet cash needs as determined by the State Treasurer's Office.

**d) Maturity Requirements.** There are no maturity restrictions on individual securities in this portion of the Permanent Land Fund. The average duration of the bond portfolio should be within plus or minus twenty percent (20%) of the duration of the Lehman Aggregate Bond Index or Custom Index, whichever is applicable.

**e) Diversification.** The State Treasurer shall diversify the securities held in this fund to avoid a concentration of any security type.

**f) Risk.** The fund has a diversified asset allocation to limit the degree of uncertainty in the pursuit of return. The equity cap also prohibits exacerbated levels of risk in the fund.

**g) Return Expectation.** The long-term return expectation will be four hundred (400) basis points above the CPI.

**h) Benchmark.** Custom Index weighting the fixed income allocation by the Lehman Brothers Aggregate Bond Index, the large cap domestic equity allocation by the S&P 500 Index, the small/mid cap domestic equity allocation by the Russell 2500 Index, the international equity allocation by the MSCI EAFE Index, the private equity allocation by the State's actual private equity investment returns, the core real estate allocation by the NCREIF Fund Index – Open-End Diversified Core Equity, the non-core real estate allocation by the NCREIF Property Index, the absolute return allocation by the HFN Fund of Funds Multi-Strategy Average Index, the convertibles allocation by the Merrill Lynch All Convertibles All Quality Index, and the State Agency Pool allocation by the State Agency Pool Custom Index as defined in Section 21.1 Sub-Section 2(h).

## 21.4 Sub-Policy for the Treasury Portion of the Common School Permanent Land Fund

**1. Fund Description.** This sub-policy applies to the funds of the Common School Permanent Land Fund administered by the State Treasurer. This fund is a permanent fund, which dispenses income and capital gains out of the fund.

**2. Philosophy and Investment Strategy.** The Common School Permanent Land Fund cannot be spent but only invested for income. There is a requirement for liquidity in this pool. A main objective of the fund is to produce maximized long-term investment return.

**a) Primary Investment Goal.** The primary investment goals are capital appreciation, total return and protection against inflation.

**b) Target Asset Allocation.** The asset allocation is restricted by State statutes to no more than fifty-five percent (55%) equities. The target asset allocation is as follows:

|                        |      |
|------------------------|------|
| Large Cap US Equity    | 15%  |
| Small Cap US Equity    | 3%   |
| International Equity   | 13%  |
| Private Equity         | 4%   |
| Real Estate            | 7.5% |
| Absolute Return        | 7.5% |
| Convertibles           | 2%   |
| Fixed Income*          | 45%  |
| Core Plus              | 20%  |
| Mortgage               | 7%   |
| Corporate              | 4%   |
| Long Duration          | 2%   |
| Internal Portfolio     | 9%   |
| Global/Emerging Market | 3%   |
| Cash Equivalents       | 3%   |

\* The total Fixed Income allocation is reduced by LDIs and Other Wyoming Related Investments.

The target established above represents the long-term asset allocation objectives for the fund. However, the State Treasurer's Office shall have the right to make periodic adjustments to the above-listed allocations as they see fit, commensurate with the economic environment, ongoing cash flow activity, and the liquidity needs of the fund. It is also understood that the strategic allocation to alternative assets may differ from the target outlined for limited periods of time, due to the illiquid nature of these asset classes. Further, during the initial implementation of alternative asset classes, the allocation will fall below the minimum range until the program can be fully established.

**c) Liquidity Requirements.** Liquidity shall be maintained to facilitate trading, to move money between asset classes, and to meet cash needs as determined by the State Treasurer's Office. Sufficient liquidity shall be maintained to assist in meeting the cash flow needs of the school foundation program, and to meet the requirement of the school bond investment guarantee program.

**d) Maturity Requirements.** There are no maturity restrictions on individual securities in this portion of the Common School Permanent Land Fund. The average duration of the bond portfolio should be within plus or minus twenty percent (20%) of the duration of the Lehman Aggregate Bond Index or Custom Index, whichever is applicable.

**e) Diversification.** The State Treasurer shall diversify the securities held in this fund to avoid a concentration of any security type.

**f) Risk.** The fund has a diversified asset allocation to limit the degree of uncertainty in the pursuit of return. The equity cap also prohibits exacerbated levels of risk in the fund.

**g) Return Expectation.** The long-term return expectation will be four hundred (400) basis points above the CPI.

**h) Benchmark.** Custom Index weighting the fixed income allocation by the Lehman Brothers Aggregate Bond Index, the large cap domestic equity allocation by the S&P 500 Index, the small/mid cap domestic equity allocation by the Russell 2500 Index, the international equity allocation by the MSCI EAFE Index, the private equity allocation by the State's actual private equity investment returns, the core real estate allocation by the NCREIF Fund Index – Open-End Diversified Core Equity, the non-core real estate allocation by the NCREIF Property Index, the absolute return allocation by the HFN Fund of Funds Multi-Strategy Average Index, the convertibles allocation by the Merrill Lynch All Convertibles All Quality Index, and the State Agency Pool allocation by the State Agency Pool Custom Index as defined in Section 21.1 Sub-Section 2(h).

**i) Spending Policy.** The spending policy set by legislative determination is five percent (5%) of the previous five (5) year average market value of the fund, calculated on the first day of the fiscal year. Amounts spent must be sourced from investment income. Earnings in excess of the spending policy are appropriated from the general fund to the reserve account. When the reserve account reaches a balance that exceeds seventy-five percent (75%) of the current fiscal year's spending policy, the excess funds will be transferred from the reserve account to corpus.

## 21.5 Sub-Policy for the University Permanent Land Fund

**1. Fund Description.** This sub-policy applies to the University Permanent Land Fund. This fund is a permanent fund, which dispenses income and capital gains out of the fund.

**2. Philosophy and Investment Strategy.** The University Permanent Land Fund cannot be spent but only invested for income. The main objective of the fund is to produce maximized long-term investment return.

**a) Primary Investment Goal.** The primary investment goals are capital appreciation, total return and protection against inflation.

**b) Target Asset Allocation.** The asset allocation is restricted by State statutes to no more than 55% equities. The target asset allocation is as follows:

|                        |      |
|------------------------|------|
| Large Cap US Equity    | 15%  |
| Small Cap US Equity    | 3%   |
| International Equity   | 13%  |
| Private Equity         | 4%   |
| Real Estate            | 7.5% |
| Absolute Return        | 7.5% |
| Convertibles           | 2%   |
| Fixed Income*          | 43%  |
| Core Plus              | 19%  |
| Mortgage               | 7%   |
| Corporate              | 4%   |
| Long Duration          | 2%   |
| Internal Portfolio     | 8%   |
| Global/Emerging Market | 3%   |
| Cash Equivalents       | 5%   |

\* The total Fixed Income allocation is reduced by LDIs and Other Wyoming Related Investments.

The target established above represents the long-term asset allocation objectives for the fund. However, the State Treasurer's Office shall have the right to make periodic adjustments to the above-listed allocations as they see fit, commensurate with the economic environment, ongoing cash flow activity, and the liquidity needs of the fund. It is also understood that the strategic allocation to alternative assets may differ from the target outlined for limited periods of time, due to the illiquid nature of these asset classes. Further, during the initial implementation of alternative asset classes, the allocation will fall below the minimum range until the program can be fully established.

**c) Liquidity Requirements.** Liquidity shall be maintained to facilitate trading, to move money between asset classes, and to meet cash needs as determined by the State Treasurer's Office.

**d) Maturity Requirements.** There are no maturity restrictions on individual securities in this portion of the University Permanent Land Fund. The average duration of the bond portfolio should be within plus or minus twenty percent (20%) of the duration of the Lehman Aggregate Bond Index or Custom Index, whichever is applicable.

**e) Diversification.** The State Treasurer shall diversify the securities held in this fund to avoid a concentration of any security type.

**f) Risk.** The fund has a diversified asset allocation to limit the degree of uncertainty in the pursuit of return. The equity cap also prohibits exacerbated levels of risk in the fund.

**g) Return Expectation.** The long-term return expectation will be four hundred (400) basis points above the CPI.

**h) Benchmark.** Custom Index weighting the fixed income allocation by the Lehman Brothers Aggregate Bond Index, the large cap domestic equity allocation by the S&P 500 Index, the small/mid cap domestic equity allocation by the Russell 2500 Index, the international equity allocation by the MSCI EAFE Index, the private equity allocation by the State's actual private equity investment returns, the core real estate allocation by the NCREIF Fund Index – Open-End Diversified Core Equity, the non-core real estate allocation by the NCREIF Property Index, the absolute return allocation by the HFN Fund of Funds Multi-Strategy Average Index, the convertibles allocation by the Merrill Lynch All Convertibles All Quality Index, and the State Agency Pool allocation by the State Agency Pool Custom Index (as defined in Section 21.1 Sub-Section 2(h)).

## 21.6 Sub-Policy for the Hathaway Scholarship Fund

**1. Fund Description.** This sub-policy applies to the Hathaway Scholarship Fund. This fund is a permanent fund, which dispenses income and capital gains out of the fund.

**2. Philosophy and Investment Strategy.** The Hathaway Scholarship Fund cannot be spent but only invested for income. The main objective of the fund is to produce maximized long-term investment return.

**a) Primary Investment Goal.** The primary investment goals are capital appreciation, total return and protection against inflation.

**b) Target Asset Allocation.** The asset allocation is restricted by State statutes to no more than fifty-five percent (55%) equities. The target asset allocation is as follows:

|                        |      |
|------------------------|------|
| Large Cap US Equity    | 15%  |
| Small Cap US Equity    | 3%   |
| International Equity   | 13%  |
| Private Equity         | 4%   |
| Real Estate            | 7.5% |
| Absolute Return        | 7.5% |
| Convertibles           | 2%   |
| Fixed Income*          | 43%  |
| Core Plus              | 19%  |
| Mortgage               | 7%   |
| Corporate              | 4%   |
| Long Duration          | 2%   |
| Internal Portfolio     | 8%   |
| Global/Emerging Market | 3%   |
| Cash Equivalents       | 5%   |

\* The total Fixed Income allocation is reduced by LDIs and Other Wyoming Related Investments.

The target established above represents the long-term asset allocation objectives for the fund. However, the State Treasurer's Office shall have the right to make periodic adjustments to the above-listed allocations as they see fit, commensurate with the economic environment, ongoing cash flow activity, and the liquidity needs of the fund. It is also understood that the strategic allocation to alternative assets may differ from the target outlined for limited periods of time, due to the illiquid nature of these asset classes. Further, during the initial implementation of alternative asset classes, the allocation will fall below the minimum range until the program can be fully established.

**c) Liquidity Requirements.** Liquidity shall be maintained to facilitate trading, to move money between asset classes, and to meet cash needs as determined by the State Treasurer's Office.

**d) Maturity Requirements.** There are no maturity restrictions on individual securities in this portion of the Hathaway Scholarship Fund. The average duration of the bond portfolio should be within plus or minus twenty percent (20%) of the duration of the Lehman Aggregate Bond Index or Custom Index, whichever is applicable.

**e) Diversification.** The State Treasurer shall diversify the securities held in this fund to avoid a concentration of any security type.

**f) Timeline for Target Asset Allocation.** By June 30, 2009, the allocation to equities should be up to a target of fifty-two percent (52%). The allocation should be monitored on a percentage of target basis rather than dollar additions to equity. The percentage target allocation method allows more equities to be purchased when markets are low and less equities to be purchased when markets are high.

**g) Risk.** The fund has a diversified asset allocation to limit the degree of uncertainty in the pursuit of return. The equity cap also prohibits exacerbated levels of risk in the fund.

**h) Return Expectation.** The long-term return expectation will be four hundred (400) basis points above the CPI.

**i) Benchmark.** Custom Index weighting the fixed income allocation by the Lehman Brothers Aggregate Bond Index, the large cap domestic equity allocation by the S&P 500 Index, the small/mid cap domestic equity allocation by the Russell 2500 Index, the international equity allocation by the MSCI EAFE Index, the private equity allocation by the State's actual private equity investment returns, the core real estate allocation by the NCREIF Fund Index – Open-End Diversified Core Equity, the non-core real estate allocation by the NCREIF Property Index, the absolute return allocation by the HFN Fund of Funds Multi-Strategy Average Index, the convertibles allocation by the Merrill Lynch All Convertibles All Quality Index, and the State Agency Pool allocation by the State Agency Pool Custom Index (as defined in Section 21.1 Sub-Section 2(h)).

## 21.7 Sub-Policy for the Higher Education Endowment Fund

**1. Fund Description.** This sub-policy applies to the Higher Education Endowment Fund. This fund is a permanent fund, which dispenses income and capital gains out of the fund.

**2. Philosophy and Investment Strategy.** The Higher Education Endowment Fund cannot be spent but only invested for income. The main objective of the fund is to produce maximized long-term investment return.

**a) Primary Investment Goal.** The primary investment goals are capital appreciation, total return and protection against inflation.

**b) Target Asset Allocation.** The asset allocation is restricted by State statutes to no more than fifty-five percent (55%) equities. The target asset allocation is as follows:

|                        |      |
|------------------------|------|
| Large Cap US Equity    | 15%  |
| Small Cap US Equity    | 3%   |
| International Equity   | 13%  |
| Private Equity         | 4%   |
| Real Estate            | 7.5% |
| Absolute Return        | 7.5% |
| Convertibles           | 2%   |
| Fixed Income*          | 43%  |
| Core Plus              | 19%  |
| Mortgage               | 7%   |
| Corporate              | 4%   |
| Long Duration          | 2%   |
| Internal Portfolio     | 8%   |
| Global/Emerging Market | 3%   |
| Cash Equivalents       | 5%   |

\* The total Fixed Income allocation is reduced by LDIs and Other Wyoming Related Investments.

The target established above represents the long-term asset allocation objectives for the fund. However, the State Treasurer's Office shall have the right to make periodic adjustments to the above-listed allocations as they see fit, commensurate with the economic environment, ongoing cash flow activity, and the liquidity needs of the fund. It is also understood that the strategic allocation to alternative assets may differ from the target outlined for limited periods of time, due to the illiquid nature of these asset classes. Further, during the initial implementation of alternative asset classes, the allocation will fall below the minimum range until the program can be fully established.

**c) Liquidity Requirements.** Liquidity shall be maintained to facilitate trading, to move money between asset classes, and to meet cash needs as determined by the State Treasurer's Office.

**d) Maturity Requirements.** There are no maturity restrictions on individual securities in this portion of the Higher Education Endowment Fund. The average duration of the bond portfolio should be within plus or minus twenty percent (20%) of the duration of the Lehman Aggregate Bond Index or Custom Index, whichever is applicable.

**e) Diversification.** The State Treasurer shall diversify the securities held in this fund to avoid a concentration of any security type.

**f) Timeline for Target Asset Allocation.** By June 30, 2009, the allocation to equities should be up to a target of fifty-two percent (52%). The allocation should be monitored on a percentage of target basis rather than dollar additions to equity. The percentage target allocation method allows more equities to be purchased when markets are low and less equities to be purchased when markets are high.

**g) Risk.** The fund has a diversified asset allocation to limit the degree of uncertainty in the pursuit of return. The equity cap also prohibits exacerbated levels of risk in the fund.

**h) Return Expectation.** The long-term return expectation will be four hundred (400) basis points above the CPI.

**i) Benchmark.** Custom Index weighting the fixed income allocation by the Lehman Brothers Aggregate Bond Index, the large cap domestic equity allocation by the S&P 500 Index, the small/mid cap domestic equity allocation by the Russell 2500 Index, the international equity allocation by the MSCI EAFE Index, the private equity allocation by the State's actual private equity investment returns, the core real estate allocation by the NCREIF Fund Index – Open-End Diversified Core Equity, the non-core real estate allocation by the NCREIF Property Index, the absolute return allocation by the HFN Fund of Funds Multi-Strategy Average Index, the convertibles allocation by the Merrill Lynch All Convertibles All Quality Index, and the State Agency Pool allocation by the State Agency Pool Custom Index as defined in Section 21.1 Sub-Section 2(h).

## 21.8 Sub-Policy for the Workers' Compensation Fund

**1. Fund Description.** This sub-policy applies to the funds of the Workers' Compensation Fund administered by the State Treasurer. This fund is a non-permanent fund, which retains income and capital gains within the fund.

**2. Philosophy and Investment Strategy.** This is a specially managed fund of which the corpus is long-term Workers' Compensation funds. These funds are to be invested for the very long-term to produce a situation in which the Workers' Compensation fund is self funding or nearly self funding in order to substantially reduce or eliminate the need for employer contributions. These funds are managed for long-term return with cash flow necessary only in the case of a disaster.

**a) Primary Investment Goal.** Safety of capital, yield, and capital appreciation are the primary investment goals.

**b) Target Asset Allocation.** The target asset allocation should be as follows:

|                        |     |
|------------------------|-----|
| Large Cap US Equity    | 8%  |
| Small Cap US Equity    | 1%  |
| International Equity   | 7%  |
| Real Estate            | 3%  |
| Absolute Return        | 6%  |
| Convertibles           | 3%  |
| Fixed Income*          | 65% |
| Core Plus              | 30% |
| Mortgage               | 10% |
| Corporate              | 4%  |
| Long Duration          | 3%  |
| Internal Portfolio     | 13% |
| Global/Emerging Market | 5%  |
| Cash Equivalents       | 7%  |

\* The total Fixed Income allocation is reduced by LDIs and Other Wyoming Related Investments.

The target established above represents the long-term asset allocation objectives for the fund. However, the State Treasurer's Office shall have the right to make periodic adjustments to the above-listed allocations as they see fit, commensurate with the economic environment, ongoing cash flow activity, and the liquidity needs of the fund. It is also understood that the strategic allocation to alternative assets may differ from the target outlined for limited periods of time, due to the illiquid nature of these asset classes. Further, during the initial implementation of alternative asset classes, the allocation will fall below the minimum range until the program can be fully established.

**c) Liquidity Requirements.** Liquidity shall be maintained to facilitate trading, to move money between asset classes, and to meet cash needs. The exact cash level for the Workers' Compensation Fund shall be determined by the Workers' Compensation staff and dependent on the liquidity needs of the fund, and those cash estimates shall be presented to the State Treasurer's office on an annual basis.

**d) Maturity Requirements.** This fund is designed to be a long-term investment pool with the main objective to grow the capital over time. The average duration of the bond portfolio should be plus or minus twenty percent (20%) of the duration of the Lehman Aggregate Bond Index or Custom Index, whichever is applicable.

**e) Diversification.** The State Treasurer shall diversify the securities held in this fund to avoid a concentration of any single security type.

**f) Timeline for Target Asset Allocation.** By June 30, 2009, the allocation to equities should be up to a target of twenty-five percent (25%). The allocation should be monitored on a percentage of target basis rather than dollar additions to equity. The percentage target allocation method allows more equities to be purchased when markets are low and less equities to be purchased when markets are high.

**g) Risk.** The fund has a diversified fixed income allocation to limit the degree of uncertainty in the pursuit of return.

**h) Return Expectations.** The long-term return expectation will be three hundred (300) basis points above the CPI.

**i) Benchmark.** Custom Index weighting the fixed income allocation by the Lehman Aggregate Bond Index, the large cap domestic equity allocation by the S&P 500 Index, the small/mid cap domestic equity allocation by the Russell 2500 Index, the international equity allocation by the MSCI EAFE Index, the core real estate allocation by the NCREIF Fund Index – Open-End Diversified Core Equity, the non-core real estate allocation by the NCREIF Property Index, the absolute return allocation by the HFN Fund of Funds Multi-Strategy Average Index, the convertibles allocation by the Merrill Lynch All Convertibles All Quality Index, and the State Agency Pool allocation by the State Agency Pool Custom Index as defined in Section 21.1 Sub-Section 2(h).

## 21.9 Sub-Policy for the Tobacco Settlement Trust Fund

**1. Fund Description.** This sub-policy applies to the funds of the Tobacco Settlement Trust Fund administered by the State Treasurer. This fund is a non-permanent fund, which dispenses income and capital gains out of the fund.

**2. Philosophy and Investment Strategy.** This fund is to be managed for investment of payments received pursuant to the Master Settlement Agreement.

**a) Primary Investment Goal.** Safety of capital, yield, and liquidity are the primary investment goals.

**b) Target Asset Allocation.** The target asset allocation shall be as follows:

|                        |     |
|------------------------|-----|
| Convertibles           | 3%  |
| Fixed Income*          | 94% |
| Core Plus              | 42% |
| Mortgage               | 14% |
| Corporate              | 7%  |
| Long Duration          | 5%  |
| Internal Portfolio     | 19% |
| Global/Emerging Market | 7%  |
| Cash Equivalents       | 3%  |

\* The total Fixed Income allocation is reduced by LDIs and Other Wyoming Related Investments.

The target established above represents the long-term asset allocation objectives for the fund. However, the State Treasurer's Office shall have the right to make periodic adjustments to the above-listed allocations as they see fit, commensurate with the economic environment, ongoing cash flow activity, and the liquidity needs of the fund.

**c) Liquidity Requirements.** Liquidity shall be maintained to facilitate trading, to move money between asset classes, and to meet cash needs as determined by the State Treasurer's Office.

**d) Maturity Requirements.** Investments of any maturity may be included in the Tobacco Settlement Trust Fund. There is not a maximum maturity limitation. The average duration of the bond portfolio should be plus or minus twenty percent (20%) of the duration of the Lehman Aggregate Bond Index or Custom Index, whichever is applicable.

**e) Diversification.** The State Treasurer shall diversify the securities held in this fund and shall avoid a concentration of any single type of investment. The fund is expected to contain a majority of longer term U.S. Treasuries, government agencies, and corporate bonds.

**f) Return Expectations.** The return expectation will be two hundred and twenty-five (225) basis points above CPI.

**g) Risk.** The fund has a diversified fixed income allocation to limit the degree of uncertainty in the pursuit of return.

**h) Benchmark.** Custom Index weighting the fixed income allocation by the Lehman Aggregate Bond Index, the convertibles allocation by the Merrill Lynch All Convertibles All Quality Index, and the State Agency Pool allocation by the State Agency Pool Custom Index as defined in Section 21.1 Sub-Section 2(h).

## **21.10 Sub-Policy for the Wyoming State Treasurer's Asset Reserve (WYO-STAR).**

**1. Fund Description.** This sub-policy applies to the funds of the WYO-STAR account, a local government investment pool administered by the State Treasurer's Office.

**2. Philosophy and Investment Strategy.** This fund administers the short-term cash deposits made with the State by local entities. The actual investments are administered to provide liquid cash reserves, placing the majority portion in a cash portfolio and the rest in an extended cash portfolio according to specified guidelines. The disbursement of interest income and return of principal to the participants is managed in the State Treasurer's Office.

**a) Primary Investment Goal.** The State of Wyoming WYO-STAR account (the "WYO-STAR Account") will pursue a short-term and extended-term, fixed income strategy designed to optimize the yield on cash by investing in eligible securities that satisfy these guidelines.

**b) Target Asset Allocation.** One hundred percent (100%) of the fund is comprised of short-term bonds and cash as denoted in Section 21.6.2(e) entitled Diversification/Permissible Investments.

**c) Liquidity Requirements.** Liquidity shall be maintained to facilitate trading, to move money between asset classes, and to meet cash needs as determined by the State Treasurer's Office. The percent invested in the extended portion of the WYO-STAR Account will be directed by the State Treasurer's Office, consistent with Section (d) below entitled Maturity Requirements.

**d) Maturity Requirements.** If an instrument is subject to an unconditional put or unconditional demand feature, its final maturity will be the earlier of the date noted on the face of the instrument as the date on which the principal amount must be paid or the date on which the principal amount of the instrument can be recovered through demand. Sinking fund securities and asset backed issues with periodic principal repayment will be measured by their anticipated weighted average cash flows for the purpose of calculating their duration. The extended portion of the WYO-STAR Account may not exceed thirty five percent (35%) of the market value of the portfolio at the time of purchase.

i) Cash Portfolio: The portfolio's weighted average maturity is not to exceed ninety (90) days. All securities must have a maximum maturity of three hundred and sixty-five (365) days. The maximum average cash flow weighted duration of the portfolio must not exceed ninety (90) days. The market value of the portfolio must remain within plus or minus one-half percent (0.5%) of one percent (1%) of amortized cost.

ii) Extended Cash Portfolio: Maximum average cash flow weighted duration is not to exceed three (3) years. Individual securities must not exceed a cash flow weighted duration of five (5) years. The extended portion of the WYO-STAR Account may not exceed thirty-five percent (35%) of the market value of the portfolio at the time of purchase.

**e) Diversification/Permissible Investments.** The WYO-STAR Account is permitted to purchase the following securities:

i) Asset-Backed Securities

ii) Repurchase Agreements

iii) Government Securities, including obligations of the U.S. Treasury and Obligations of U.S. Government Agencies or Instruments, bearing floating or fixed interest rates.

iv) Asset-Backed Securities will be limited to CMOs or pass-throughs; the collateral for which is securities issued by GNMA, FNMA, FHLMC or notes fully guaranteed as to principal and interest by the

Small Business Administration. Automobile receivables and credit receivables will also be considered permissible investments.

v) Currency: U.S. dollar denomination only.

**f) Risk.** The fund has a diversified allocation to short term investments to limit the degree of uncertainty in the pursuit of return.

**g) Limitations on Amounts Invested Cash Reserve; Permitted Borrowing.** The WYO-STAR Account will seek to be invested fully in permissible investments at the close of business on each day.

**h) Repurchase Agreements (including term repurchase agreements).** Permitted Collateral: Government securities. The minimum collateral required is one hundred and two percent (102%).

**i) Benchmarks.** For the cash portfolio, Monitored Repurchase Agreement Rate plus 15 basis points and the cash equivalents allocation by the 90-Day T-Bills. For the extended cash portfolio, an equal-weighted blend of the Merrill Lynch 1-3 Year Agency, 1-3 Year Treasury, and 0-3 Year Mortgage Indices.

## **Section 22. Sub-Policies Regarding Legislatively Designated Investments (LDIs)**

### **22.1 LDIs - General Policies**

**(to be added at a later date)**

#### **Glossary of Terms**

"Alternative Investments" are inclusive of investments that have either the qualities of return potential in excess of traditional investments and/or low correlation with traditional investments. For purposes of this policy, the following investments are included in this definition:

- Absolute Return (Hedge Fund of Funds)
- Distressed Debt
- Overlay Strategies
- Private Equity
- Real Estate
- Special Situations
- Venture Capital

"Duration" is expressed in years. It is a measure of a bond's price change with change in yield, and is calculated by averaging the time to each interest and principal payment, weighted by each payment's present value.

"Overlay Instruments" are any instrument designed to compliment an underlying portfolio. The approved instrument is a derivative contract whose purpose is to add incremental return to the portfolio, manage risk, or a combination of both.

"Risk" shall be the measurable possibility of losing or not gaining value.

"Securities Act of 1933" is the Federal law which requires registration of securities and disclosure of financial information for potential investors.

"Total Return" shall be calculated to include all dividend and income as well as realized and unrealized capital appreciation or depreciation.