



**Robert Sprague**  
**State Treasurer of Ohio**

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*Statement of Investment Policy*



As of December 10, 2020

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**State Treasurer of Ohio**  
**STAR Ohio**  
***Statement of Investment Policy***

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## ***Definitions***

### **Book Value**

For purposes of this Policy, the book value of the Fund (as defined herein) shall mean the amortized cost balance of the Fund as calculated at the end of each business day the Fund is open.

### **Certificate of Deposit (CD)**

An interest-bearing time deposit of fixed maturity at a depository bank. Certain deposits are FDIC insured up to applicable limits.

### **Commercial Paper**

An unsecured, short-term debt instrument issued at a discount by a corporation or other entity.

### **Federal Deposit Insurance Corporation (FDIC)**

FDIC as established in 12 United States Code (U.S.C.) § 1811.

### **London Interbank Offer Rate (LIBOR)**

LIBOR is derived from a filtered average of the world's most creditworthy banks' interbank deposit rates for larger loans with maturities between overnight and one full year.

### **Mortgage Backed Securities (MBS)**

An ordinary bond backed by an undivided interest in a pool of mortgages or trust deeds.

### **Nationally Recognized Statistical Rating Organization (NRSRO)**

A credit rating agency that issues credit ratings that the United States Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. All references in this Policy to ratings by an NRSRO (including, but not limited to, S&P) incorporate by reference the investment ratings standards set forth in Chapter 113-6 of the Ohio Administrative Code (OAC).

### **Net Asset Value (NAV)**

NAV is a fund's price per share, or per each dollar invested. NAV per share is computed once a day based on the closing market prices of the securities and is calculated by dividing the total value of the Fund's portfolio, less any liabilities, by the number of fund shares outstanding.

### **Perfected Security Interest**

A security interest that is perfected pursuant to the requirements set forth by Ohio Revised Code (R.C.) Chapter 1309 and 12 U.S.C. § 1823(e).

### **Repurchase Agreement**

An agreement with a commitment by the seller of securities (Counterparty A) to buy the same securities back from the purchaser (Counterparty B) at a specified price at a designated future date.

### **Reverse Repurchase Agreement**

The other side of a repurchase transaction where Counterparty B sells a group of securities to a Counterparty A under the terms that the Counterparty B will buy them back by a predetermined date for a specified price.

**Secured Overnight Financing Rate (SOFR)**

A measure of the cost of borrowing cash on an overnight basis in the United States (U.S.) Treasury repurchase (repo) markets. The rate includes the tri-party general collateral rate collected by the Bank of New York Mellon, the GCF repo rate from the Depository Trust & Clearing Corporation, and the rate used in bilateral Treasury repo transactions cleared at the Fixed Income Clearing Corporation.

**Standard & Poor's (S&P)**

A U.S.-based financial services company and the NRSRO that provides the annual credit rating for STAR Ohio.

**Total Average Portfolio (TAP)**

For purposes of this Policy, STAR Ohio's TAP for any one month shall be calculated on the first business day of each month, and is equal to the numerical average of the five (5) highest end-of-business day total fund outstanding shares recorded within the twelve (12) month period immediately preceding the calculation date.

**Traditional Collateral**

U.S. government and U.S. government agency securities, including Treasuries and agency discount notes.

**Uniform Commercial Code (UCC)**

The UCC as set forth in R.C. Title 13.

**Weighted Average Maturity (WAM)**

The average time that it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio.

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**State Treasurer of Ohio**  
**STAR Ohio**  
*Statement of Investment Policy*

***Purpose and Scope***

State Treasury Asset Reserve of Ohio (“STAR Ohio” or the “Fund”) is an investment pool managed by the State Treasurer of Ohio (the “State Treasurer”). Participation in STAR Ohio is offered by the State Treasurer to governmental subdivisions of the State of Ohio (the “State”), as defined in Section 135.45(F)(2)(a) of the Ohio Revised Code (“R.C.”).

The purpose of this Statement of Investment Policy (the “Policy”) is to identify and describe the policies and procedures governing the investment activities of the Office of the State Treasurer in connection with the management of STAR Ohio. This Policy is to be strictly followed by each individual with responsibility for managing or administering STAR Ohio. This Policy has been adopted by, and is within the sole discretion of, the STAR Ohio Investment Advisory Committee (the “Advisory Committee”). Exceptions to the Policy are permitted only if made pursuant to the Investment Compliance Exception Procedure.

This Policy is intended to ensure the prudent management of public funds; conformance to the Ohio Revised Code; the availability of operating and capital funds when needed; an investment return competitive with comparable funds and relevant benchmarks; and the attainment of the highest rating provided by at least one nationally recognized statistical rating organization (“NRSRO”) as selected by the Office of the State Treasurer.

All participants in the investment process for STAR Ohio shall act responsibly as guardians of the public trust. Investment Department staff in the Office of the State Treasurer shall recognize that the investment portfolio is subject to public review and evaluation. The overall STAR Ohio program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

***Investment Objectives***

The Fund shall be managed in a manner consistent with the requirements set forth in Statement Nos. 31, 59 and 79 of the Governmental Accounting Standards Board (“GASB”), and to accomplish the following hierarchy of objectives:

1. *Preservation of Principal* – Safety of principal is the foremost objective of the Fund. This is evidenced by maintaining the ‘AAAm’ rating from S&P. Investments of STAR Ohio shall be transacted in a manner that seeks to insure the stable NAV of \$1.00 per share. However, if market conditions necessitate that the Fund be rebalanced, the Investment Department staff may be required to liquidate certain securities at a net loss.
2. *Maintenance of Liquidity* - The Fund will remain sufficiently liquid to enable the Fund to meet all operating requirements. Liquidity shall be assured by keeping an adequate amount of short-term investments in the portfolio to accommodate the cash needs of the Fund.

3. *Maximize Return* - The Fund shall be structured with the objective of attaining a market rate of return, taking into account the risk constraints and the cash flow characteristics of STAR Ohio participants.

### ***Delegation of Authority***

The State Treasurer hereby delegates to the Advisory Committee responsibility for the implementation of the STAR Ohio investment program and the establishment of investment procedures consistent with this Policy. The Advisory Committee shall consist of the Deputy Treasurer, who shall chair meetings of the Advisory Committee, the Director of Investments<sup>1</sup> and the Deputy Director of Investments, who shall serve as the Secretary to the Committee. The Advisory Committee shall meet once each calendar quarter and on such other occasions as the Chair shall direct. Meetings may occur in person, by telephone conference call, or by such other means as the Chair deems appropriate.

The investment procedures established under this Policy shall include an explicit delegation of responsibility to Investment Department staff in connection with investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established hereunder. The Director of Investments shall be responsible for monitoring all transactions undertaken, shall establish a system of controls to regulate the activities of Investment Department staff and shall exercise supervision and control over such personnel. Investment Department staff shall be bonded in amounts appropriate to levels of responsibility and portfolio characteristics.

The State Treasurer may engage one or more outside firms to assist with the administration and investment management of the Fund. Should any firm be hired to provide advice or assistance with regard to the management of the Fund, that firm shall be a registered investment advisor under the Investment Company Act of 1940 and have extensive experience in the investment management of money market funds and state and local government funds.

### ***Standard of Prudence***

All investment activities within the Fund shall be conducted with judgment and care, under circumstances currently prevailing that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

All participants in STAR Ohio investment activities shall act responsibly as custodians of the public trust. Investment officials shall recognize that the Fund is subject to public review and evaluation. The Fund shall be designed and managed with a degree of prudence and professionalism that is worthy of the public trust.

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<sup>1</sup> Throughout this Investment Policy, the term “Director of Investments” is used to describe, regardless of job title, the individual responsible for direct supervision and management of the Ohio Treasurer of State’s investment department

## ***Ethics and Conflict of Interest***

Investment Department staff shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. Further, no Investment Department staff member involved shall use the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that would create an improper influence upon the public official or employee with respect to that person's duties.

Investment Department staff shall comply fully with the reporting and disclosure requirements of R.C. Chapter 102.

## ***Authorized Investments***

R.C. § 135.45(A) broadly authorizes the investment of STAR Ohio funds in the same type of financial instruments and securities that are permitted for the investment of state interim funds, with the exception of certain linked deposits. The Investment Department staff is authorized to invest in the asset classes described in R.C. §§ 135.09, 135.143 and 135.144, subject to any additional conditions specifically set forth in this Policy:

### **A. United States (“U.S.”) Treasury Obligations**

U.S. Treasury bills, notes, bonds, or any other obligations or securities issued by the U.S. Treasury or any other obligation guaranteed as to principal and interest by the U.S., provided that floating rate U.S. obligations shall be indexed to the three-month U.S. Treasury Bill.

U.S. Treasury floating rate obligations shall not have a final maturity greater than seven hundred sixty-two (762) days and must have a reset date within ninety-three (93) days.

### **B. United States Federal Agency Obligations**

Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, provided that floating rate agency or instrumentality obligations shall be indexed to any of the following benchmarks:

1. Prime Rate
2. Federal Funds Rate (includes Federal Funds Effective Rate)
3. One-month LIBOR
4. Three-month LIBOR
5. Three-month U.S. Treasury Bill
6. Six-month U.S. Treasury Bill
7. One-year U.S. Treasury Bill
8. Secured Overnight Financing Rate

U.S. federal agency obligations shall have a short-term rating of at least ‘A-1’ by S&P, or if the issue does not have a short-term rating, a long-term rating of the issuer of at least ‘A+’ by S&P, provided that the issue is not of a subordinated nature.

U.S. federal agency floating rate obligations shall not have a final maturity greater than seven hundred sixty-two (762) days and must have a reset date within ninety-three (93) days.

**C. Repurchase Agreements**

STAR Ohio may enter into repurchase agreements, provided that all of the following conditions are met:

1. A Master Repurchase Agreement or another written repurchase agreement governs the transaction.
2. The repurchase agreement is fully secured by deliverable obligations set forth in R.C. § 135.143(A)(4) and having a market value of at least one hundred two percent (102%) of the amount of the agreement.
3. The State Treasurer obtains a perfected first security interest in the collateral under the UCC, or book entry procedures prescribed at 31 Code of Federal Regulations (C.F.R.) 306.1 et seq. in such securities are created for the benefit of the State.
4. The counterparty to the repurchase agreement is (i) an Ohio financial institution that is a member of the Federal Reserve System; (ii) a Federal Home Loan Bank; (iii) any recognized government securities dealer; or (iv) any other institution as permitted by R.C. § 135.143, *and* such counterparty has a short-term debt rating of at least ‘A-1’ by S&P, or if the counterparty is not explicitly rated ‘A-1’ by S&P, the counterparty must possess a guarantee from an S&P-rated parent company.
5. Counterparty diversification guidelines for repurchase agreements are set forth in the following table:

Counterparty Rating	Overnight (1 business day)	2-5 business days	More than 5 business days	Maximum aggregate exposure per counterparty*	Maximum aggregate fund exposure of all counterparties with the rating*
A-1+	50%	10%	5%	50%	100%
A-1	25%	10%	5%	25%	100%
A-2	5%	0%	0%	5%	10%

\*Maximum aggregate counterparty exposure encompasses commercial paper holdings and repurchase agreements with any one counterparty. For example, should five percent (5%) of the Fund be invested in an ‘A-1’ company’s commercial paper, maximum exposure to an overnight repurchase agreement with that same counterparty would be twenty percent (20%).

6. The repurchase agreement has a term to maturity of no greater than thirty (30) business days.
7. The aggregate amount of all repurchase agreements (including reverse repurchase agreements) with maturities of more than five (5) business days is limited to ten percent (10%) of the book value of the Fund and is counted toward the ten percent (10%) maximum for Illiquid Investments that is described in the “Investment Diversification” section of this policy.
8. For repurchase agreements with terms to maturity of greater than one (1) business day, the Director of Investments, or his or her designee, will value the collateral securities daily, unless market conditions warrant more frequent valuation. If additional collateral is required based upon such market valuations, the additional collateral must be delivered by the close of business on the day it was requested.
9. The repurchase agreement is transacted on a delivery versus payment basis or on a tri-party basis through an independent third-party custodian acting solely as agent for the State Treasurer.
10. For repurchase transactions executed on a delivery versus payment basis, substitutions of collateral shall occur only when permitted under the applicable Master Repurchase Agreement and upon written approval of an authorized employee of the State Treasurer’s office.

**D. Reverse Repurchase Agreements**

STAR Ohio may also enter into reverse repurchase agreements provided that all of the conditions set forth in Section C, above, are met and that:

1. The securities have been fully paid for and are owned by STAR Ohio at the time of the sale.
2. Reverse repurchase agreements shall have the following limits:
  - a. No more than twenty-five percent (25%) of the book value of the portfolio shall be invested in reverse repurchase transactions.
  - b. The reverse repurchase agreement has a term to maturity of no greater than five (5) days.
3. Cash received and reinvested must be matched on both sides of reverse repurchase agreements. For the purpose of calculating the maturity of permitted investments, maturity shall mean:
  - a. One (1) day in the case of money market mutual funds, master notes and other instruments that may be liquidated without notice,
  - b. The number of days remaining to the next reset date in the case of marketable floating rate securities,

- c. The number of days remaining until the next put date in the case of securities subject to unconditional and irrevocable puts of the issue to the obligor,
- d. The number of days remaining until the initial redemption date of an extendible commercial note for which the extension option has not been exercised, or
- e. The actual number of days remaining until the maturity date for all other permitted investments.

**E. Commercial Paper**

Short-term debt (including asset-backed commercial paper and commercial paper notes issued under private placement) issued by entities organized under the laws of the United States or a state, provided that all of the following conditions are met:

- 1. The maturity is no greater than three hundred and ninety-seven (397) days.
- 2. The total amount invested in commercial paper at any time does not exceed forty percent (40%) of TAP.
- 3. The total amount invested in the debt of a single issuer, including commercial paper, shall not exceed five percent (5%) of the book value of the Fund.
- 4. The short-term debt rating of the commercial paper issuer at the time of purchase is at least 'A-1' by S&P and the equivalent rating by at least one other NRSRO.
- 5. A written, issuer-specific credit analysis prepared by STAR Ohio's investment advisor(s) detailing why the issuer does not pose an unreasonable credit risk to the Fund. STAR Ohio will invest funds based upon an approved list of commercial paper issuers (the "Approved Issuers List"). The Approved Issuers List shall be maintained, subject to additions and deletions, as recommended by STAR Ohio's investment advisor(s) and approved by the Advisory Committee.

**F. Corporate Obligations**

Bonds, notes, or other obligations issued by entities organized under the laws of the United States or a state thereof which, at the time of purchase, have a short-term rating of at least 'A-1' by S&P and an equivalent rating by at least one other NRSRO or, if no short-term debt rating is available, a long-term debt rating of at least 'A+' by S&P and an equivalent long-term rating by at least one other NRSRO, provided that the issue is not of a subordinated nature. In addition, all of the following conditions must be met:

- 1. The maturity is no greater than three hundred and ninety-seven (397) days.
- 2. Total investments in corporate obligations (exclusive of commercial paper) shall not exceed at any time twenty-five percent (25%) of TAP.
- 3. The total amount invested in the debt of a single issuer, including corporate obligations, shall not exceed five percent (5%) of the book value of the Fund.

**G. Municipal Obligations**

Bonds, notes and other obligations of any state or political subdivision thereof, provided that all of the following conditions are met:

1. The bonds, notes, or other obligations are purchased through a registered broker or dealer.
2. The Fund is not the sole purchaser of the bonds, notes, or other obligations at original issuance (per R.C. § 135.143(A)(3)(b)).
3. The bonds, notes, or other obligations are rated by S&P in the three highest categories, as defined in OAC § 113-6-01(B)(4).
4. The total amount invested in municipal obligations does not at any time exceed ten percent (10%) of the book value of the Fund.
5. The total amount invested in any single issuer of municipal obligations does not at any time exceed two and a half percent (2.5%) of the book value of the Fund.

**H. Bank Deposits**

STAR Ohio funds may be placed in one or both of the following types of deposit instruments purchased from an institution that meets all eligibility requirements set forth in R.C. §§ 135.03 and 135.04, and which are designated to hold state interim deposits pursuant to R.C. § 135.12:

1. Time CDs, savings accounts, or deposit accounts so long as:
  - a. The financial institution holding the deposits (a) complies with all statutory eligibility requirements; (b) is designated to hold state interim deposits; and (c) offers to pay the highest permissible rate of interest (See R.C. §§ 135.03, 135.04, 135.09 and 135.12);
  - b. Maturity dates on any CDs do not exceed one (1) year;
  - c. The deposit is not a linked deposit authorized by R.C. §§ 135.61 to 135.67; and
  - d. Deposits are collateralized in the following manner:
    - i. For financial institutions rated 'A-1' or better by at least two NRSROs, collateralization of bank deposits in amounts exceeding FDIC limits is required in an amount equal to at least one hundred two percent (102%) for deposits collateralized pursuant to R.C. § 135.18, and one hundred five percent (105%) for deposits collateralized pursuant to R.C. § 135.181. For collateralization levels, refer to the S&P collateralization chart in Appendix A.
    - ii. For financial institutions rated 'A-2' or lower, adhere to the S&P collateralization chart in Appendix A.

- iii. Collateralization of any bank deposit shall be the greater of the amount recommended by S&P or the R.C., but in no event shall be less than one hundred percent (100%).
  - iv. Substitutions of collateral will be permitted only with advance written approval of the Office of the State Treasurer.
2. Federally-insured CDs purchased in the manner set forth in R.C. § 135.144 by a public depository holding deposits of state interim funds. Holdings in any pooled bank deposit programs authorized in this section are considered Illiquid Investments for purposes of investment diversification requirements.

**I. Registered Investment Companies (Mutual Funds)**

Shares in open-end, no-load money market mutual funds (“Money Market Funds”), provided that the Money Market Funds are registered under the Investment Company Act of 1940 and operated in accordance with 17 C.F.R. 270.2a-7. STAR Ohio shall only invest in Money Market Funds rated ‘AAA’ or ‘AAAm’ by S&P. The Money Market Fund must also be registered for sale in the State or subject to a lawful registration exemption. In addition, all of the following conditions must be met:

1. No single Money Market Fund shall represent more than ten percent (10%) of the book value of the Fund.
2. STAR Ohio’s holdings in any single Money Market Fund shall not represent more than ten percent (10%) of the total assets under management of such Money Market Fund.

**J. Banker’s Acceptances**

Banker’s acceptances of any domestic bank or federally chartered domestic branch office of a foreign bank if the following requirements are met:

1. The maturity is no greater than two hundred seventy (270) days from the date of issuance.
2. The issuer has a short-term debt rating of at least ‘A-1’ by S&P and an equivalent short-term debt rating by at least one other NRSRO, as measured at the time of purchase.
3. The total amount invested in banker’s acceptances at any time does not exceed ten percent (10%) of TAP.
4. The amount invested in any single issuer will not exceed five percent (5%) of the book value of the Fund.

### ***Investment Diversification***

The Fund shall be structured to diversify investments to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific type of security. The maximum percentage of the Fund permitted for each type of security, based on the book value of the Fund at the time of purchase (unless otherwise specified), is as follows:

A.	U.S. Treasury Obligations	100% maximum
B.	Federal Agency Obligations (including fixed rate, callable and floating rate obligations)	100% maximum, although no single Federal Agency issuer shall exceed 33% of the book value of the Fund. Government-guaranteed investments rated 'AA-' or higher with final maturities of 30 days or less are excluded from this restriction.
C.	Repurchase Agreements with terms to maturity of 5 days or less	100% maximum, so long as there is compliance with all counterparty diversification guidelines set forth in both Chart 5 and Table 12 within Appendix A.
D.	Reverse Repurchase Agreements with terms to maturity of 5 days or less	25% maximum (at any time)
E.	Municipal Bonds	10% maximum
F.	Collateralized Bank Deposits	100% maximum, so long as there is compliance with all counterparty diversification guidelines set forth in both Chart 4 and Table 11 within Appendix A.
G.	Mutual Funds	100% maximum
H.	Illiquid Investments	10% maximum

The maximum percentage of the Fund, based on TAP, which may be invested at any time in the following eligible security types, are as follows:

A.	Commercial Paper	40% maximum (at any time)
B.	Banker's Acceptances	10% maximum (at any time)
C.	Corporate Obligations	25% maximum (at time of purchase)

### ***Illiquid Investments***

Illiquid investments for purposes of this document are comprised of investments that cannot be sold or disposed of in five (5) business days at the approximate value attributed to it by the Fund. Securities that have limited liquidity or are illiquid include:

- A. Nonmarketable and historically less liquid instruments with maturities greater than five (5) business days, unless the Fund holds an unconditional put providing for liquidity within five (5) business days, or if the Fund is able to redeem the investment within five (5) business days with no loss to invested principal;
- B. Investments denominated in a currency other than U.S. dollars;
- C. Window variable-rate demand bonds (WVRDBs) and other similar structures;

- D. Repurchase agreements with maturities of more than five (5) business days;
- E. CDs that mature in more than five (5) business days, and that are not traded in a secondary market or are subject to early withdrawal penalties; and
- F. Pooled bank deposit programs with a maturity of more than one (1) business day.

### ***Maximum Maturity***

Maintenance of adequate liquidity to meet the cash flow needs of the local government investors in STAR Ohio is essential. Accordingly, the Fund will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. To that end, the following guidelines govern the weighted average maturity of STAR Ohio, as well as the individual investments held by the fund:

- A. No security shall be purchased that has a final stated maturity exceeding three hundred ninety-seven (397) days, with the exception of U.S. Treasury obligations and federal agency obligations with floating rates of interest. U.S. Treasury obligations and federal agency obligations with floating rates of interest can have a maximum maturity of up to seven hundred sixty-two (762) days. However, no security shall be purchased or sold that will cause the WAM(R), which is the weighted average maturity to the next reset date, of the portfolio to exceed sixty (60) days or the WAM(F), which is the weighted average maturity to final maturity, to exceed ninety (90) days.
- B. A repurchase agreement transaction shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur, or where no date is specified, but the agreement is subject to demand, the notice period applicable to a demand for the repurchase of the underlying securities;
- C. A security with an unconditional and irrevocable put shall be deemed to have a maturity equal to the period remaining until the next put date;
- D. A marketable federal agency obligation which has a floating rate of interest shall be deemed to have a WAM(R) equal to the period remaining until the next readjustment of the interest rate;
- E. A marketable federal agency obligation which has a floating rate of interest and is subject to a demand feature shall be deemed to have a maturity equal to the shorter of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand; and
- F. A callable security for which the issuer has given notice of its intent to call is deemed to have a maturity equal to the period remaining until the date on which the security will be called.

### ***Securities Lending***

Pursuant to R.C. §§ 135.143 and 135.47, the Fund may engage in securities lending, subject to policies adopted by the State Treasurer. The Securities Lending Policy is set forth in a separate policy of the Office of the State Treasurer.

### ***Prohibited Investments and Investment Practices***

The Fund is expressly prohibited from the following investments and investment practices (this is not an exclusive list):

- A. Short sales (selling a specific security before it has been legally purchased);
- B. Investment in complex derivatives such as range notes, dual index notes, inverse floating rate notes and leveraged notes or notes linked to lagging indices or to long-term indices;
- C. Mortgage-backed securities (MBS); and
- D. Investing in any security not specifically permitted by this Policy.

The aforementioned prohibitions do not apply to any collateral portfolios established or maintained pursuant to a Securities Lending program. Any prohibitions applicable to such collateral portfolios are set forth in the applicable Securities Lending Policy.

### ***Portfolio Management and Metrics***

The Advisory Committee has determined that it is in the best interests of STAR Ohio and its participants to manage the Fund in such a manner so as to maintain a stable net asset value (NAV) of \$1.00 per unit, using the amortized cost method of valuation. The NAV of STAR Ohio is to be determined at 2:00: P.M. Eastern Time on each day that the Federal Reserve System is open for business, except on days in which the Fund closes early. The NAV per unit will be computed by dividing the total value of the assets of STAR Ohio, less its liabilities, by the number of units outstanding. If the Fund's current market-based NAV per share should deviate from its amortized cost price per share by an amount exceeding 15 basis points (0.15 of 1 percent), the Director of Investments or Deputy Treasurer shall assess the situation and follow the procedures outlined in the STAR Ohio NAV deviation policy included in Appendix B.

The Investment Department staff will routinely monitor the holdings of the Fund, the market conditions, and the relative values of competing securities, and will adjust the Fund as necessary to meet the investment objectives of this Policy.

It is recognized and understood that this non-speculative active management of Fund holdings may cause a book gain or loss on the sale of an owned investment. The State Treasurer's office will determine the period over which any such gain or loss is distributed.

## ***Stress Testing***

The Advisory Committee has determined that stress testing shall be conducted on the Fund on at least a monthly basis. The stress tests must show the impact in each of the following scenarios:

- A. Parallel interest rate shifts of +/- 200 basis points (bps) in 25bps increments;
- B. Asset decreases (*i.e.*, redemptions) of ten percent (10%), fifteen percent (15%), twenty percent (20%), twenty-five percent (25%), and the percentages recorded on each of the top five (5) historical days with the highest total dollar amount of net redemptions from the Fund;
- C. A downgrade of the largest issuer exposure; and
- D. Movement of credit spreads (based on the current market conditions).

## ***Cure Periods***

Cure periods are periods of time specified by S&P in which STAR Ohio would have to devise a plan or remediate any deviations in key metrics such as WAM or NAV. Cure periods are also specified in the event of investment ratings downgrades and when an investment's level of liquidity changes. The Investment Department shall comply at all times with the cure period criteria set forth in the most recently published S&P criteria for Principal Stability Fund Ratings.

Upon the occurrence of an event of insolvency, default or any other event causing a security maintained in the Fund to become ineligible for inclusion in the Fund under (i) R.C. § 135.143 and any related administrative rules; (ii) relevant S&P guidelines and criteria; and/or (iii) this Policy, the Investment Department staff shall dispose of such security as soon as practicable, absent a determination that its disposal would not be in the best interests of STAR Ohio or its participants. In making this determination, the Director of Investments shall consult with S&P as appropriate.

## ***Internal Controls***

Internal Controls should be designed to prevent the loss of public funds arising from fraud, misrepresentation by third parties, unanticipated changes in the financial markets and errors or imprudent actions by employees. Everyone within the Office of the State Treasurer assumes a role with respect to internal controls. The roles vary depending upon an individual's level of responsibility and nature of involvement. The Administration establishes the presence of integrity, ethics, competence and a positive control environment. The directors have oversight responsibility for internal controls within their units. The supervisory personnel are responsible for executing control policies and procedures at the detail level within their specific unit. Each individual within a unit must be cognizant of the proper internal control procedures associated with their specific job responsibilities.

The Internal Audit Department of the Office of the State Treasurer (IAD) examines the adequacy and effectiveness of internal controls and makes recommendations as to where control improvements are warranted. The IAD performs independent, objective assurance and consulting

activities to help improve management practices, identify operational improvements and reduce agency risk exposure.

The role of IAD includes the following activities:

- A. Evaluating and improving the adequacy and effectiveness of risk management, control and governance processes;
- B. Validating compliance with policies, standards, procedures and applicable laws and regulations;
- C. Evaluating business processes to determine whether reasonable assurance exists that management objectives and operational goals are achieved; and
- D. Providing process and managerial consulting to identify potential operational efficiencies and process improvements.

As part of the annual audit, the State Treasurer shall have the investment program of STAR Ohio reviewed by the Ohio Auditor of State, or his or her designee. This audit will be designed to establish asset and liability valuations and measure compliance with STAR Ohio's investment policies and procedures. The State Treasurer, at his or her discretion, may contract with an independent firm to audit the STAR Ohio investment program.

### ***Eligible Banks and Broker/Dealers***

The State Treasurer will establish and maintain a list of eligible brokers, dealers and banks with whom securities transactions will be conducted. Qualified firms will be limited to primary dealers and other dealers that qualify under SEC Rule 15c3-1 (uniform net capital rule) that are registered with the Ohio Department of Commerce to do business in the State. Prior to inclusion on the list of qualified firms, financial institutions and broker/dealers must submit a completed "Broker/Dealer Request for Information" and have such Request approved by the Office of the State Treasurer. If approved for inclusion on the list of qualified firms and selected to conduct securities transactions with the Office of the State Treasurer, financial institutions and broker/dealers will be required to comply with this Policy and to pledge to offer for sale only appropriate securities.

### ***Competitive Selection of Investment Instruments***

The State Treasurer shall transact all securities purchases and sales for the Fund only with financial institutions approved pursuant to the criteria set forth above. The State Treasurer shall accept the offer which (a) optimizes the investment objective of the overall portfolio and (b) has the highest rate of return within the maturity required. When selling a security, the State Treasurer will select the bid that generates the highest sale price.

In making investment decisions, all other things being equal and subject to compliance with any applicable Internal Revenue Code requirements for bond proceeds, investment in corporations and financial institutions doing business in the State will be given preference over other investment options.

### ***Investment of Bond Proceeds***

The Office of the State Treasurer intends to manage STAR Ohio in a manner that will allow it to qualify as a commingled fund for arbitrage purposes (see Section 148(f) of the Internal Revenue Code of 1986, as amended). STAR Ohio will accept bond proceeds subject to arbitrage rebate.

### ***Safekeeping and Custody***

All investment securities purchased by the State or held as collateral on deposits or investments shall be held in third-party safekeeping at a public depository as required by R.C. § 135.03.

All securities in the Fund shall be held in the name of STAR Ohio and, with the exception of securities lent pursuant to a securities lending policy, shall be free and clear of any lien. Further, all investment transactions will be conducted on a delivery versus payment basis. The depository shall issue a safekeeping receipt to the State Treasurer listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will also provide reports which list all securities held for the State, the book value of holdings and the market value as of month-end.

Appropriate Treasury officials and representatives of the depository responsible for, or in any manner involved with, the safekeeping and custody process of the State shall be bonded in such a fashion as to protect the State from losses from malfeasance and misfeasance.

### ***Performance Standards***

The Fund shall be designed and managed with the objective of obtaining a competitive market rate of return that takes into account the risk constraints and the cash flow characteristics of STAR Ohio participants. The portfolio shall be compared to the relevant S&P Rated Government Investment Pool (GIP) Index. The State Treasurer may also select other relevant, short-term benchmarks.

### ***Reporting***

The Director of Investments shall maintain accurate, complete and timely records of all investment activities. The Director of Investments shall submit an investment report to the State Treasurer summarizing the previous month's activity. This report shall include: (i) a listing of the existing portfolio in terms of investment securities, amortized book value, maturity date, return, market value and other features deemed relevant; (ii) a listing of all transactions executed during the month; and (iii) the monthly distribution rate. The market values presented in these reports will be consistent with accounting guidelines in GASB Statement No. 31 pertaining to the valuation of investments and the treatment of unrealized gains/losses. The report will also include a statement that the investment of the Fund is in compliance with this Policy. STAR Ohio will also submit weekly reporting to S&P summarizing WAM, portfolio diversification and NAV values. The Director of Investments will also prepare annual reports to provide full disclosure of all investment activities to the State Treasurer, STAR Ohio participants and the general public.

***Investment Policy Adoption***

This Policy is adopted as of December 10, 2020.



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Marjorie Kruse  
Deputy Treasurer



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Jonathan Azoff  
Chief of Finance & Senior Counsel

# APPENDICES

**Appendix A**  
**S&P Charts and Tables**

Chart 3

**Diversification Criteria Flowchart—Overview**

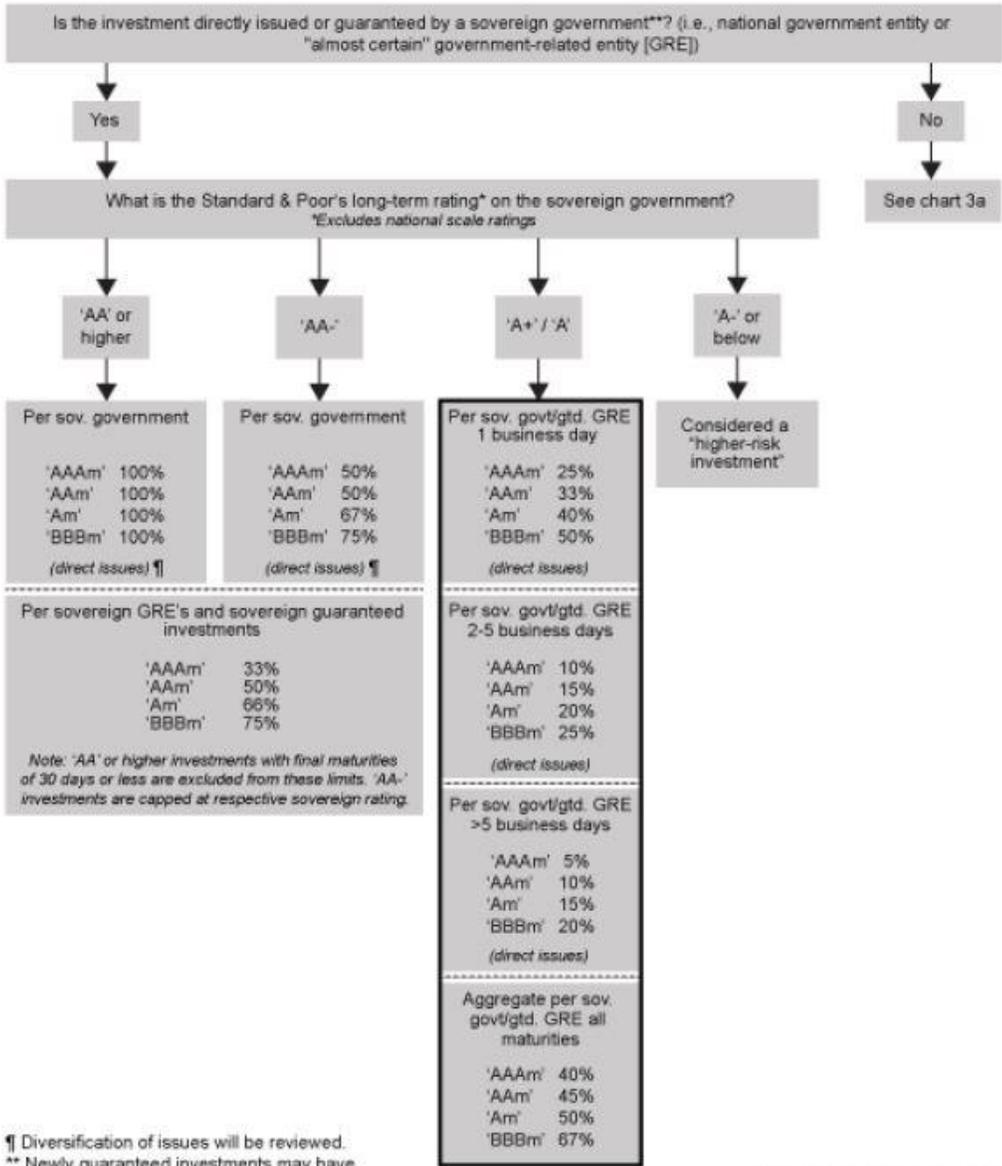
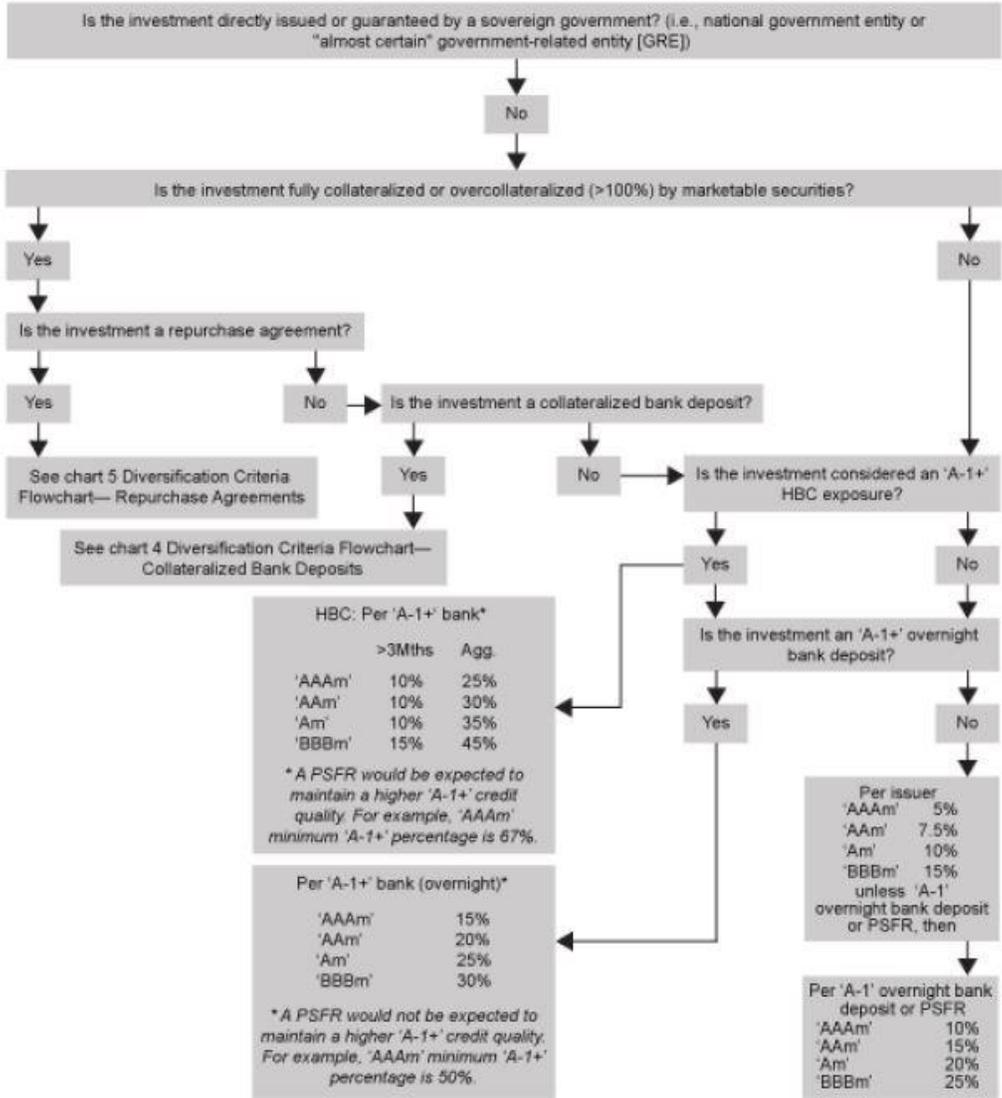


Chart 3a

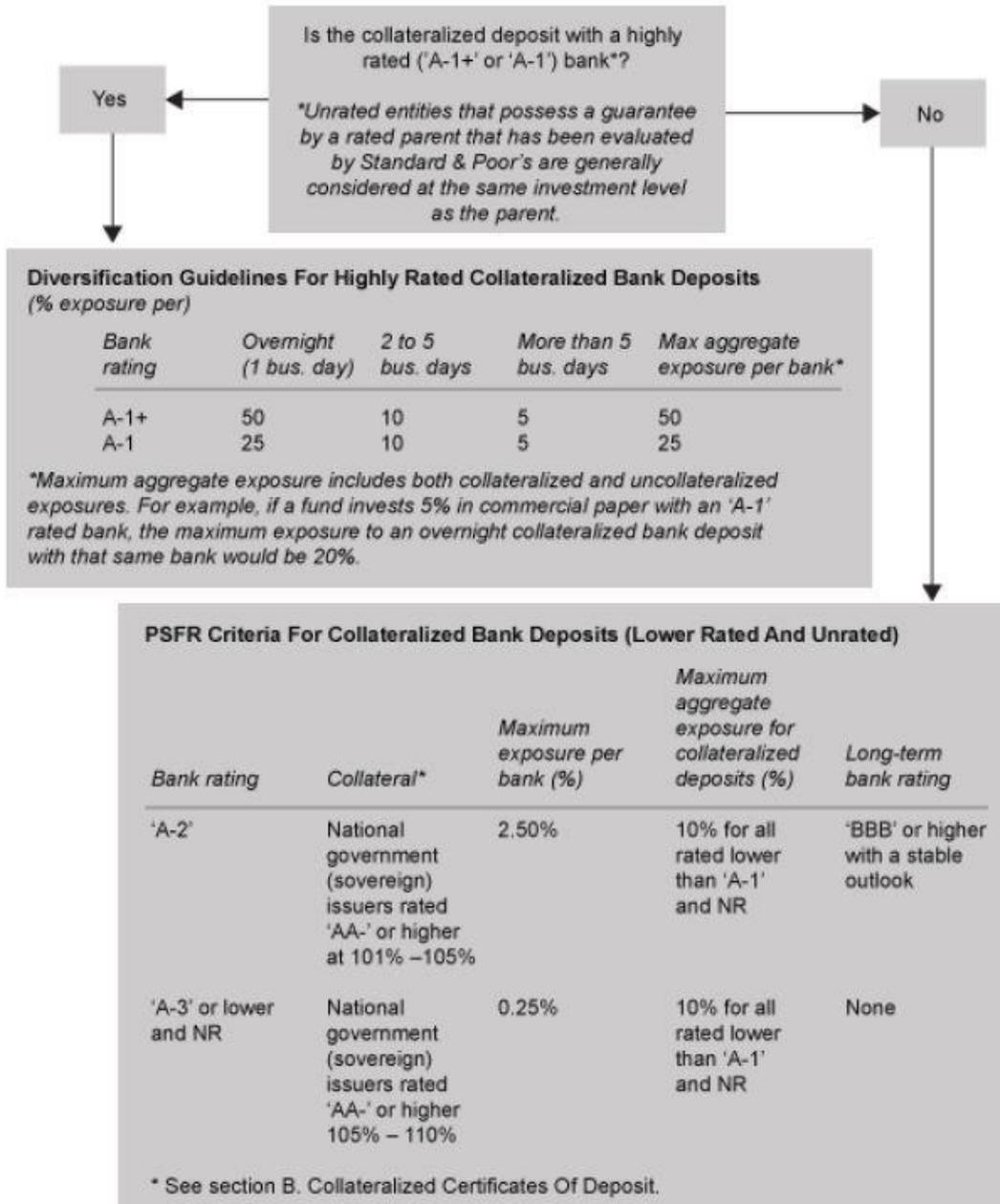
**Diversification Criteria Flowchart—Overview**



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Chart 4

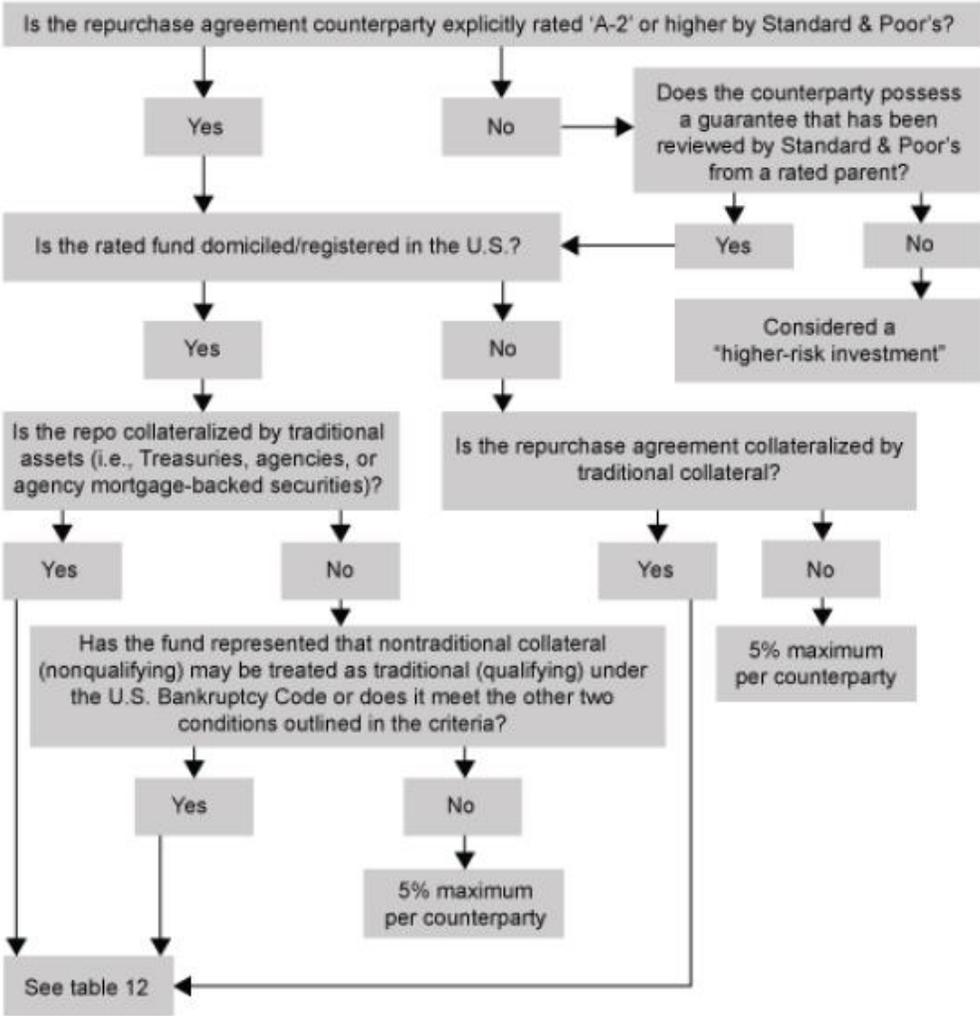
**Diversification Criteria Flowchart—Collateralized Bank Deposits**



© Standard & Poor's 2016.

Chart 5

**Diversification Criteria Flowchart—Repurchase Agreements**



© Standard & Poor's 2016.

**Excerpt from February 1, 2016 S&P PSFR Criteria**

110. A fund investing in collateralized CDs receives a 'BBm' rating unless all of the following conditions by bank short-term rating in table 11 are met or paragraph 111 is applied.

**Table 11**

Collateralized Deposits With Banks (Rated And Unrated)			
Bank short-term rating	'A-1+' and 'A-1'	'A-2'	'A-3' or lower and NR¶
Maximum maturity on deposit	397 days	397 days	397 days
Collateral* (% ,maturity, pricing frequency)	100%	National government (sovereign) issuers rated 'AA-' or better at 101%–105%*; priced at least weekly	National government (sovereign) issuers rated 'AA-' or better at 105%–110%*; priced at least weekly
Custody of collateral	Held in name of fund	Held in name of fund	Held in name of fund
Maximum exposure per bank (%)	See chart 3-3a	2.50%	0.25%
Maximum aggregate exposure for collateralized deposits (%)	100%	10% for all rated lower than 'A-1' and NR	10% for all rated lower than 'A-1' and NR
Bank long-term rating	N/A	At least 'BBB' with a stable outlook	N/A

\*Actual collateralization amounts depend on maturity, type, and pricing frequency. The more frequently the collateral is priced, the shorter the maturity of the collateral and the more liquid the collateral (i.e., 'AA-' or higher rated sovereign), the less excess collateral needed to back the deposit. The collateral must be priced at least weekly, maintained at predetermined collateralization levels on each pricing day, and held in custody in the name of the fund for the fund to be rated investment grade. ¶This column also applies to banks rated 'A-2' that do not have a long-term rating of at least 'BBB' with a stable outlook. N/A--Not applicable. NR--Not rated.

111. When table 11 does not apply, the specific levels of overcollateralization are calculated using the midpoint of 'AA' and 'A' transactions from tables 1, 2, and 3 in "Methodology And Assumptions For Market Value Securities," published Sept. 17, 2013. The estimated worst historical price decline of assets pledged as collateral is calculated by asset type, where multiple assets of the same type are aggregated using their weighted average term to maturity.

**Table 12**

Diversification Guidelines For Repurchase Agreements With Traditional Collateral				
(%)	AAAm	AAm	Am	BBBm
Maximum per 'A-1+' counterparty overnight (1 business day)	50	50	50	50
Maximum per 'A-1+' counterparty 2-5 business days	10	10	10	10
Maximum per 'A-1+' counterparty more than 5 business days*	5	5	5	5
Maximum aggregate exposure to any single 'A-1+' counterparty	50	50	50	50
Maximum per 'A-1' counterparty overnight (1 business day)	25	25	25	25
Maximum per 'A-1' counterparty 2-5 business days	10	10	10	10
Maximum per 'A-1' counterparty more than 5 business days*	5	5	5	5
Maximum aggregate exposure to any single 'A-1' counterparty	25	25	25	25
Maximum per 'A-2' counterparty overnight (1 business day)	5	5	5	5
Maximum per 'A-2' counterparty 2 or more business days	0	0	0	0
Maximum fund exposure, aggregated over all 'A-2' counterparties	10	10	15	20

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

## **Appendix B**

# **NAV Deviation Policy**

## **STAR Ohio NAV Deviation Policy**

**Reviewed December 10, 2020**

The State Treasurer of Ohio hereby directs the Fund's Administrator to obtain an independent price for each security in the portfolio at least weekly and, using such prices, prepare a mark-to-market appraisal of the Fund which determines the deviation in the Fund between the net asset value and amortized cost. The Administrator is also instructed to obtain at least two dealer bids to verify pricing on any investment that is difficult to price.

If any appraisal shows that the actual deviation is in excess of 15 basis points (0.15% of \$1.00), or if the Director of Investments or Deputy Treasurer believes that the deviation may result in dilution or other unfair results to investors or existing holders of beneficial interests, (a) the Director of Investments or Deputy Treasurer will instruct the Fund's Administrator to obtain independent prices for each security in the portfolio on a daily basis and compute daily mark-to-market values until the deviation drops below 0.15% of \$1.00, (b) the Director of Investments or Deputy Treasurer, Investment Manager and financial advisors will review the daily mark-to-market calculation, perform stress tests weekly, or as conditions merit, and analyze the current market conditions and factors affecting the portfolio, (c) the Director of Investments or Deputy Treasurer, Investment Manager and financial advisors will create an action plan for stabilizing the NAV and maintaining the objectives of preservation of capital, maintenance of liquidity and income, and (d) the Director of Investments or Deputy Treasurer will promptly inform the State Treasurer of the situation and indicate what action, if any, is being taken to limit or remediate the deviation. The plan of action will then be appropriately documented in writing.

In the event of any calculation thereof where the actual deviation is in excess of 25 basis points (0.25% of \$1.00), (a) the Director of Investments or Deputy Treasurer will instruct the Administrator, Investment Manager and financial advisors to continue all procedures as described in the previous paragraph, (b) at a meeting, or by conference call, the State Treasurer shall be notified as soon as practicable to consider what action, if any, should be initiated by the Investment Department to cure the NAV deviation within five (5) business days. If an NAV deviation of more than 0.25% cannot be cured within five (5) business days, the Director of Investments or Deputy Treasurer will inform S&P of the NAV deviation. The plan of action will then be appropriately documented in writing.

If the NAV actual deviation is in excess of 0.50% of \$1.00, (a) the State Treasurer, Deputy Treasurer, and Director of Investments will additionally determine (a) appropriate notification to shareholders, (b) determine if redemptions or subscriptions should be temporarily halted and (c) determine fund liquidation procedures, if deemed appropriate. The plan of action will then be appropriately documented in writing.

In the event that the Director of Investments or Deputy Treasurer at any time believes that the extent of any deviation from the Fund's amortized cost value may result in material dilution or other unfair results to investors or existing holders of beneficial interest, the Director of Investments or Deputy Treasurer shall take such action as deemed appropriate to eliminate or reduce, to the extent reasonably practicable, such dilution or potentially unfair results.

Actions that the Director of Investments or Deputy Treasurer may take to stabilize the NAV include, without limitation: redemption of beneficial interests in kind; the sale of portfolio securities prior to maturity to realize capital gains or losses or to shorten the Fund's average portfolio maturity; withholding dividends or payment of distributions from capital or capital gains; or utilizing a net asset value as determined by using available market quotations or equivalents. In addition, the Director of Investments or Deputy Treasurer has the authority to reduce or increase the number of beneficial interests outstanding on a pro rata basis, and to offset each holder's pro rata portion of the deviation from the holder's accrued dividend account or from future dividends.