

New Hampshire State Treasury

Cash and Investment Guidelines for Operating Funds

PURPOSE

These general guidelines are intended to accomplish the stated objectives while ensuring compliance with state and federal laws. These guidelines are also designed to strengthen internal controls over the safeguarding of State cash and investments.

INVESTMENT OBJECTIVE

State funds will be invested in the following order of priority to:

1. preserve the value and safety of the principal,
2. maintain liquidity appropriate for short-term cash needs, and
3. optimize the rate of return on investments consistent with the goals of safety and liquidity.

When making individual investments, the primary considerations will be the mitigation of risk, liquidity, income and maturity. It is recognized that income is a product of yield to maturity, therefore; fixed income securities may be purchased either at a discount to minimize initial cash outlay and take advantage of capital appreciation, or at a premium to optimize cash flow when conditions warrant.

These guidelines apply to all operating funds under the supervision of the State Treasury. They do not apply to funds belonging to the New Hampshire Turnpike System or to any trust or custodial funds, all of which have separate sets of investment guidelines.

LEVELS OF AUTHORITY

1. The Treasurer is authorized to invest the State's operating funds within the established guidelines. The Treasurer has also delegated this authority to the Deputy Treasurers and the Assistant Treasurer responsible for cash and investment management.
2. The Treasurer must be notified of purchases or sales of securities with a maturity of greater than 7 days.
3. The Treasurer must be notified of any transfer of cash and investments equal to or greater than \$20 million in a single transaction
4. The Treasurer, Chief Deputy, Deputy Treasurer or Assistant Treasurer is authorized to approve purchases or sales of securities. No formal approval is required for investments in overnight or weekend repurchase agreements, which would be transacted as part of an overnight sweep (investment) program.

ACCOUNTABILITY

1. The Treasurer or designee is responsible for ensuring the completion of all documentation for transactions related to the execution and confirmation of increases and decreases to money market funds purchased, maturities of CDs, buy/sell orders for securities, and for the maintenance of all necessary records of current holdings. This documentation shall include, but is not limited to, appropriate accounting and internal documents required to track the movement of funds through the State's financial system.

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2. The Treasurer or designee will document the rationale for each security transaction. Short-term investments (less than one year) do not require such documentation.

APPROVED INVESTMENTS

The following are approved investment vehicles as defined in RSA 6:8, 387:6, 387:6-a, and / or 387:14:

Certificates of Deposit (CDs):

CDs of State or federally chartered banking institutions with a branch in New Hampshire are approved. The maximum maturity of a CD will be one year and the bank must possess the highest rating as measured by at least one of the ratings assigned by Veribanc Inc.

Commercial Paper:

All commercial paper must be from issuers having an A1/P1 rating or better and an AA- or better long term debt rating from one or more of the primary rating agencies (Standard & Poor's, Moody's, and Fitch). The maximum maturity of commercial paper will be 30 days.

Fixed Income Mutual Funds:

Shares of funds which hold diversified liquid portfolios of fixed income securities are permitted. The average maturity of the investments in such a fund shall not exceed 3 years.

Federal Agency Securities:

Federal Farm Credit System, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Tennessee Valley Authority.

Money Market Funds:

Shares of funds, which hold diversified portfolios and follow standard rules for such funds as issued by the Securities and Exchange Commission. Non-collateralized or insured institutional money market funds considered will be those funds invested in treasury, federal agency, or other securities within first tier categories with the highest ratings available from at least one nationally recognized rating agency.

Repurchase Agreements:

The underlying security must be U.S government or agency securities with a market value equal to 102% of principal, and executed through any New Hampshire or Massachusetts bank that has assets in excess of \$500 million and has either the strongest rating as measured by Veribanc Inc or has a long term debt rating of AA- or better as rated by Standard & Poor's or Fitch or Aa3 or better as rated by Moody's. Maximum maturity may not be greater than 90 days.

Repurchase Agreements may also be executed through any of the primary government security dealers as designated by the Federal Reserve.

The New Hampshire Public Deposit Investment Pool

United States Treasury Securities or securities with an unconditional guarantee of principal and

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interest by the federal government

CONSTRAINTS

Maturity/Liquidity:

Consideration is given to the cashflow and maturity characteristics of securities in evaluating liquidity. To the extent possible, the Treasury shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the maximum maturity on any investment shall not exceed 3 years. The weighted average maturity of the portfolio should be less than 180 days.

Foreign Currency:

All investments will be denominated in United States Dollars.

Safekeeping:

Securities purchased by the State should be delivered against payment and either held by the Federal Reserve Bank or in a custodian account by one of the State's principal banks.

Reverse Repurchase Agreements:

Reverse repurchase agreements are not permitted under statute. Securities lending is permitted in conjunction with an approved plan and a formal agreement with a custodian bank.

Derivative Securities:

Investments in certain structured notes (not collateralized mortgage obligations); swaps, futures and options are permitted in conjunction with a formal risk management strategy and the explicit approval of the State Treasurer.

OTHER CONSIDERATIONS

Cost of Banking and Investment Services:

Costs associated with banking services are paid either through hard dollar fees or by maintaining a sufficient balance to compensate the bank for services rendered. In extremely low interest rate environments, it is likely the Treasury will incur bank service fees in an amount greater than the income generated from deposited funds. Bank service fees may settle monthly or annually. Fees will reduce any return realized (per investment and overall).

Collateral:

Pursuant to RSA 6:7, balances on deposit (which may include money market accounts and CDs), at a bank or banks may be collateralized at the discretion of the Treasurer. Although not statutorily required, uninsured bank balances are typically collateralized.

DEFINITIONS

Discount:

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the term used to describe the sale/purchase of a fixed-income security where the transaction price is lower than the face value.

Fixed-income security:
an investment with static periodic payments, and known as a security under the Securities Exchange Act of 1934.

Investment:
a commitment of dollars for a period of time with the expectation or hope of receiving future payments that will cover any inflation and compensate the investor for the time that the funds are committed and the uncertainty of any future return.

Premium:
the term used to describe the sale/purchase of a fixed income security where the transaction price is greater than the face value.

Principal:
a single capital sum, separate and apart from interest, income, or expense, which may be further defined as the amount borrowed, lent, or otherwise invested. Interest, income, or expenses may be expressed as a percentage of the principal.

Security:
a type of investment instrument that represents either an ownership interest in a company or evidence of debt, and has a fair market value which may fluctuate.

Rate of Return:
the cash inflow per annum divided by cash outflow per annum, related to a specific investment.

Yield to Maturity:
the discount rate used, so that the present value of future cash inflows, equals cash outflows.

Sweep Account:
Per the Securities Exchange Act of 1934, when the bank effects transactions as part of a program for the investment or reinvestment of deposit funds into any no-load, open end management investment company registered under the Investment Company Act of 1940 that holds itself out as a money market fund.

Repurchase Agreements (REPO):
Per GFOA, an agreement with an approved broker/dealer that provides for the sale and simultaneous purchase of an allowable collateral security. The difference in the sale and purchase price is the earning rate on the agreement. A master repurchase agreement must be in place with the approved broker/dealer.

REVIEW

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The Treasurer reviews and approves the investment guidelines at least biennially.

This policy was last reviewed and approved in May of 2014.