



COMMONWEALTH OF PENNSYLVANIA
Treasury Department

Treasury Investment Policy

Restated December 4, 2008

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I. INTRODUCTION

A. Statement of Purpose

This document sets forth the Treasury Investment Policy (Policy), which shall guide the Treasury Department in fulfilling its fiduciary responsibility when it invests certain moneys for which it is the lawful custodian. The Policy establishes investment standards that are consistent with The Fiscal Code, 72 P.S. § 1 *et seq.*; The Administrative Code, 71 P.S. § 1 *et seq.*; and all other applicable laws, rules, and regulations. The provisions of this Policy are intended to aid Treasury employees and financial professionals retained by the Treasury in making daily decisions about investment matters. The Policy is intended to be sufficiently specific to be meaningful to these audiences, yet flexible enough to be practical.

B. Background

The Pennsylvania Treasury Department is an independent executive office created by the state Constitution. The Treasurer is entrusted by the General Assembly with the exclusive management of and full power to invest moneys that exceed the ordinary needs of Commonwealth funds and that are not authorized to be invested by any other board, commission, or state official. In addition to moneys of these Commonwealth funds, Treasury enjoys investment authority for moneys derived from other specialized program activities. The Tuition Account Program Guaranteed Savings Plan, for postsecondary education savings, and the INVEST Program, for local government, charitable and non-profit organization investments, are examples of specialized programs that Treasury manages.

In making investments, the Treasurer is charged with exercising that degree of judgment and care that experienced investors of prudence, discretion, and intelligence employ in the management of their own affairs regarding permanent disposition of their assets, considering both probable income to be derived from, as well as probable safety of this capital. Implementation of this investment standard, commonly called the Prudent Person test, requires the exercise of careful judgment in determining those investments that are appropriate for each Commonwealth fund based upon distinct investment criteria such as income needs, cash flow requirements, investment time horizons, and risk tolerance. Investment judgments must also reflect the differing legal standards that authorize or limit the particular kinds of investments each fund may hold.

The Treasury Department pools moneys on behalf of various investors, such as Commonwealth funds, individuals, local governments, and nonprofit organizations. The investment strategy for each investment pool reflects a unique application of the Prudent Person test, crafted specifically to balance the investment criteria in an appropriate manner for these particular investors. For example, pools with investors who have long investment horizons and relatively high risk tolerance may prudently invest a portion of

cash in equities or high yield bonds while pools with investors who require very high liquidity or have narrow investment authority under applicable law might own only short-term fixed income investments of the highest credit quality.

C. Scope of the Treasury Investment Policy

The Policy applies to the following programs and funds administered by the Treasury Department:

1. Commonwealth Investment Program
 - a. Common Investment Pool
 - b. Treasury Liquid Asset Pool
2. Guaranteed Savings Plan (GSP)
3. INVEST Program
 - a. Daily Pool
 - b. Community Pool
4. Treasury Global Investment Fund (TGIF)

With regard to these programs and funds, the Policy covers the following areas:

- Responsibilities of the parties who carry out investment-related activities.
- Investment objectives, horizons, and limitations within the parameters of Treasury's legal authority.
- Basis for evaluating investment results.

The Policy is divided into two substantive sections. The first section, General Investment Principles, provides common standards that are applicable to all of the Treasury Department's investment practices and decisions. The second, Program-Specific Investment Principles, provides separate standards for Treasury's investment practices and decisions for specific Commonwealth funds and for other distinct programs for which Treasury manages and invests moneys.

Unless otherwise noted herein, minimum ratings requirements established by this document shall be read as referring to the lowest of the credit quality ratings issued by Moody's, Standard & Poor's, or Fitch.

D. Ethics and Conflicts of Interest Relating to Employees and Investment Officials

Treasury Department employees involved in the investment process shall refrain from any personal business activity that could conflict with the proper execution and

management of any Treasury investment program or that could impair their ability to make impartial decisions. Treasury employees shall provide all disclosures required by the Code of Conduct and the Ethics Act. Financial professionals shall disclose in writing to the Investment Committee any material interests they hold in financial institutions with which they conduct business or any other sources of potential conflicts of interest. Such written disclosure shall be made immediately upon discovery of the potential conflict. Treasury reserves the right, in its sole discretion, to require financial professionals to sell or otherwise dispose of such material interests or to limit or terminate the financial professionals' engagements.

E. Correspondence

Any correspondence to the Treasury Department referred to in this Policy shall be delivered to the address below:

Pennsylvania Treasury Department
Attn: Investment Committee
Room 123 Finance Building
Harrisburg, PA 17120
Email: TreasuryInvestmentCommittee@patreasury.org
Fax: 717-783-8850

II. GENERAL INVESTMENT PRINCIPLES

A. Applicability of General Investment Principles

The policies established by these General Investment Principles are applicable, except where otherwise expressly noted, to the programs identified within the scope of this Policy.

B. Definitions

The following words and terms shall have these meanings:

1. **Alternative Investments.** An investment category consisting of nontraditional investments. Examples include, but are not limited to, venture capital, private equity, hedge funds, and real estate investment trust (REITS).
2. **Cash Equivalent.** A domestic security with a high enough level of liquidity to be considered as good as cash.
3. **Collateralized Mortgage Obligation (CMO).** A type of mortgage-backed security that creates separate tranches of pass-through rates for different

classes of bondholders with varying maturities, priorities, and/or risk characteristics.

4. **Counterparty.** The entity with whom the Treasury Department, or an investment manager acting on behalf of Treasury, executes a trade or transaction.
5. **Domestic Security.** An equity or fixed security denominated in US dollars, issued under US laws and regulations, designed for US investors, and traded in US markets.
6. **Equities.** Common stock of a publicly traded company and securities convertible into common stock, as well as preferred stock, 144a securities, and warrants.
7. **Financial Advisor.** An individual or organization registered with and currently in compliance with the Investment Advisers Act of 1940 and retained by the Treasury Department to provide independent advisory services, including advice on investment objectives and/or asset allocation, manager searches, and performance monitoring. The term includes any employees of an organization involved in providing such services to Treasury.
8. **Financial Professionals.** Financial advisors and/or investment managers.
9. **Fitch.** The independent rating agency Fitch Ratings Ltd.
10. **Fixed Income Security.** A security that encompasses both **Adjustable Rate** or **Variable Rate Securities** and **Fixed Rate Securities**. An **Adjustable Rate** or **Variable Rate Security** is defined as a domestic fixed income security that is structured so that it provides a return in the form of periodic payments that may vary over the instrument's life, due to a change in interest rate, and a return of principal by maturity. A **Fixed Rate Security** is defined as a domestic security that provides a return in the form of periodic payments that are consistent and predetermined for the instrument's life, from purchase, and a return of principal by maturity.
11. **Fund.** A Commonwealth account with prescribed objectives and restrictions.
12. **Government Sponsored Enterprises (GSEs).** Privately owned, publicly chartered entities, such as the Federal Home Loan Bank, created by Congress.
13. **High Yield.** An investing style in which the portfolio contains bonds with speculative credit ratings of BB (Standard & Poor's) or Ba (Moody's) or lower, or such bonds themselves.

14. **Intermediate-Term Security.** A security that matures in 13 months to ten years.
15. **Investment Grade Bonds.** Bonds that are assigned a rating in the top four categories by commercial credit rating companies. Standard & Poor's classifies investment grade bonds as BBB or higher, and Moody's classifies investment grade bonds as Baa or higher.
16. **Investment Grade Commercial Paper.** Commercial paper that is assigned a rating of A1 by Standard & Poor's, P1 by Moody's, or F1 by Fitch, or higher.
17. **Investment Manager.** An individual or organization registered with and currently in compliance with the Investment Company Act of 1940 and retained by the Treasury Department to manage the investments of one or more portfolios. The term includes any employees of an organization involved in providing such services to Treasury. An investment manager is also a Treasury employee who has been assigned investment responsibility for one or more portfolios.
18. **Long-Term Security.** A security that matures in greater than ten years.
19. **Moody's.** The independent rating agency Moody's Investors Service.
20. **Net Asset Value Per Share (NAVPS).** The total value of a pool's assets less liabilities, divided by the number of outstanding shares owned in the pool.
21. **Overnight Repurchase Agreements.** Repurchase agreements that require the Treasury Department to sell underlying obligations back to the institution from which it purchased them on the Commonwealth business day immediately following the Commonwealth business day on which they were purchased; repurchase agreements, however, purchased on the Thursday before Good Friday maturing the following Monday and repurchase agreements purchased on the Wednesday before Thanksgiving maturing on the Friday immediately after Thanksgiving will be considered overnight repurchase agreements.
22. **Pool.** The totality of assets from various funds combined for the purpose of making joint investments from which each of the participating funds benefits proportionately. A pool may consist of one or more portfolios.
23. **Portfolio.** That portion of assets within a pool that is allocated to a specific financial professional for investment consistent with a particular investment discipline or objective.

24. **Program.** A discrete and defined set of identifiable procedures and objectives.
25. **Repurchase Agreement.** An agreement by the Treasury Department and/or its investment manager(s) to buy obligations of the United States Government and its agencies on a certain date from a bank or non-bank financial institution and then sell the same obligation of the United States Government and its agencies back to that particular institution on a specific date in the future at the same price plus an additional amount as agreed to by the parties. **Deliverable repurchase agreements** require the obligations of the United States Government and its agencies to be held in a Treasury controlled bank account during the term of the agreement. **Tri-party repurchase agreements** allow the obligations of the United States Government and its agencies to be held by an unaffiliated third party in trust during the term of the agreement.
26. **Securities.** The investment securities that are defined as acceptable in this Policy.
27. **Short-Term Security.** A security that matures in 13 months or less.
28. **Standard & Poor's (S&P).** The independent rating agency Standard & Poor's Ratings Service.
29. **Term Repurchase Agreement.** A repurchase agreement with a maturity greater than overnight.
30. **TRACERS.** Investment trusts that are populated by investment grade corporate bonds.
31. **Tranche.** One of several related securities offered at the same time. Tranches from the same offering usually have different risk, reward, and/or maturity characteristics.

C. Investment Philosophy

Objectives

Consistent with its obligation to act as a prudent person in carrying out its fiduciary responsibility, the Treasury Department seeks quality investments that will maximize the likelihood that each pool will consistently satisfy its respective program requirements. Quality investments are those that are suitably conservative while still projected to outperform the relevant market benchmarks, net of all fees and expenses, over the appropriate time horizon. Finally, Treasury will actively pursue investments

offering a reasonable risk-adjusted rate of return, appropriate to each pool and equal or superior to comparable alternative investments available to the pool, that also provide a positive stimulus to strategic segments of Pennsylvania's economic base, communities, and citizens.

Strategies

Treasury selects new investments and makes retention decisions about existing investments primarily to achieve these investment objectives. Although many of its programmatic investment objectives are characterized by relatively short horizons, Treasury manages significant assets for programs with extended investment horizons. The longer term investment objectives of these programs, in particular, obligate Treasury to enlarge its selection and retention analyses to include not only conventional fundamental factors but also strategic factors that could potentially affect an investment's long-term economic performance. In particular instances, a strategic factors analysis might also herald increased investment volatility for the near future, a risk that is anathema to short portfolios.

Strategic factors are not routinely included within a traditional fundamentals analysis. Indeed, it is likely that many investment decisions will address the acquisition, retention, or disposal of securities for which there are no particularly relevant strategic factors that need to be considered. Nonetheless, there is growing recognition that more complex considerations, not simply reflective of traditional company productivity and finance metrics, can have a significant bearing upon an investment's long-term value and performance in certain contexts.

No finite list of strategic considerations can be compiled. Such considerations will vary for different economic sectors, for international investments in different global regions, and for different periods of time. Traditional analytic approaches have failed to robustly incorporate strategic considerations in part due to these uncertainties, and in part due to the difficulty in applying quantifiable values to such considerations, which can make it difficult to compare one company to another, or one period of time to another. As the name suggests, strategic considerations can also frequently implicate forecasts and projections offered for periods of time that are longer than currently customary, introducing another basis for reluctance to take them into account in making decisions.

Nonetheless, it is clear that Treasury must consider identifiable drivers, such as geo-political circumstances, environmental factors, governance practices, corporate ethics, and other considerations that can materially affect an investment's return to its stockholders. For example, it seems beyond dispute at this time that the volatility in fuel supplies and prices presents opportunities for certain firms and sectors and threats for others. The prospect of carbon emissions regulation similarly offers both challenge and promise. The potential for increased incidence of armed conflict in foreign states that sponsor terrorism, or are unable to suppress terrorist activities, increases the risk of loss

for businesses that invest heavily in infrastructure in such locations. Myriad other considerations can be identified.

Treasury will incorporate strategic factors analysis into its investment decision-making when, in the judgment of the Treasurer, there is a reasonable basis for identifying a consideration, or set of considerations, that is not traditionally associated with investment decision-making but that may bear materially on the performance of an asset or sector during the time horizon for which the asset may be held. These considerations may, where appropriate, inform both affirmative decisions to acquire interests in companies not currently in Treasury's portfolios and decisions to implement the procedures described below that may eventuate in divestment. In selecting or retaining investments for the Commonwealth, the Treasurer will utilize the following guidelines for the consideration of strategic factors relating to its investments:

1. Investments shall not be selected, rejected or, if already held, liquidated based solely on strategic factors.
2. Investments shall be rejected or, if already held, liquidated following a strategic factors analysis only when alternative investments offering comparable risk and return profiles are available.
3. Strategic factors shall be taken fully into consideration to the extent that the impact of such factors on the financial advisability of the investment can be determined or predicted with an appropriate level of confidence.

Procedures

When Treasury's review of relevant strategic considerations leads it to conclude that the current business model of a company in which it has a position exposes it to unacceptable risk of volatility or underperformance, Treasury will generally first attempt to engage corporate management in a dialog. This dialog will be designed to develop a consensus that the company should alter its conduct to reduce the risks to its long-term value associated with its present business activities. Treasury may utilize shareholder advocacy strategies such as letter writing, filing shareholder resolutions, raising questions at shareholder meetings and attending small informal meetings with management in order to bring its concerns to the necessary levels of attention.

In certain unusual situations, Treasury may determine that there is insufficient prospect of success from engagement with corporate management to warrant the effort and the prolonged period of exposure to risk. These situations may include instances where management has evinced hostility or intransigence over an extended period of time in response to strategic concerns similar to those identified by Treasury. Treasury may also forego engagement in instances where it can readily identify alternative investments in companies that have positioned themselves to enjoy competitive advantages that derive from the existence of one or more strategic factors.

Sanctions

Except as previously described, Treasury views divestment of existing holdings as a tool of last resort in most instances. It shall only be employed where i) there is clear and convincing information that a company's current business practices engender unacceptable risks to its value or its role as a Treasury investment and ii) a deliberate strategy of corporate engagement is unable to produce an acceptable response.

If the engagement strategies described above fail to elicit an acceptable response from company management, Treasury will consider either making no new investments or pursuing divestment consistent with sound investment practice. Factors contributing to such a determination include, but are not limited to, the following:

1. Repeated refusal by management and a substantial number of stockholders to support shareholder proposals that the Treasurer feels are necessary to protect long-term value.
2. Failure of management to comply with the Treasurer's requests for the disclosure of economic or non-economic factors important to making investment decisions including, for example, information pertaining to company practices and policies which might contribute to supporting state sponsors of terrorism.
3. The extent to which the public market pricing of the company's stock fails to reflect a discount commensurate with Treasury's assessment of risk to the stock's value.

In instances where Treasury's prudent investor responsibilities make divestment of a company's stocks or bonds the appropriate response, it will pursue a strategy that is consistent with sound investment practice in light of the particular factors motivating its decision. Depending upon the circumstances, Treasury may elect to refrain from enlarging its position in a company, partially divest, or completely divest its holdings. Treasury will implement its divestment strategy according to a schedule that best effectuates its investment objectives considering the risks posed to the subject company as a result of its business activities. In establishing a schedule, Treasury will consider the availability of appropriate alternative investments that might substitute for its position in the subject company and evaluate the potential returns from such alternative investments against the potential returns from the subject company, adjusted for the risks identified by Treasury as a result of the company's current activities.

1. Specific Strategic Factors: Investing in State Sponsors of Terrorism

Treasury recognizes heightened concerns arising from investments in firms that either directly or indirectly support countries that practice, or provide haven for those who practice, terrorism. Firms pursuing business activities in or with such countries expose

themselves to a number of material risks that may not be adequately reflected or recognized in conventional fundamentals analysis. These concerns include:

- the general political instability and specific commercial volatility of regimes that engage in or sponsor terrorism, which can result in erratic and unexpected official hostility towards private investment activities;
- the effect on long-term value of growing international stigmatization of firms entreating with such countries; and
- the unpredictable potential for wider military conflict in such regions that damages or destroys critical physical assets and infrastructure.

Many examples of potentially vulnerable investments in terror states can be identified. Unfortunately, there is no shortage of historic instances of state expropriation, at significant discount against value, of private assets.

These and other risks that are inevitably associated with business activities in terror sponsoring states represent strategic factors that Treasury, as a prudent investor, must consider carefully in evaluating the wisdom of holding financial positions in companies that engage in such activities. All prudent investors concern themselves with investment risk, and attempting to quantify particular exposure to ascertain whether it is within acceptable risk tolerance. Treasury, as a public fiduciary that must manage demands for Commonwealth funding needs that are primarily short-term in nature, is perhaps less able to tolerate risk than other investors. The unconventional threats that confront companies in terror states are particularly resistant to easy or reliable quantification, whether in terms of likelihood of occurrence, imminence, or scope of impact. Thus, investment in these companies can impose a quality and degree of uncertainty upon Treasury that is inconsistent with its responsibility for prudence.

Accordingly, Treasury will examine publicly available information to determine whether a company in which it is considering investing, or a company in which it already holds a position, is doing sufficient business – directly, or through contractual or ownership interests -- in or with a state sponsor of terrorism and should be considered exposed to unacceptable risks to its long-term value as an investment. Treasury will exercise discretion in considering the following factors to identify whether the investment in any particular company engenders such risks arising from that company's activities with or in a state sponsor of terrorism. These factors will be applied with regard to all companies, both those domiciled in the United States and those domiciled in foreign countries.

- a) Treasury will consider states to be sponsors of terrorism if they are currently on the list of such states maintained and published by the United States State Department.

- b) Treasury will consider a company to be doing sufficient business in a state sponsor of terrorism if, among other factors, the business activities performed in, or derived from, such state are a material portion of the overall business activities of the company.
- c) In determining whether a company is doing sufficient business in a state and exposed to unacceptable risks, Treasury will give consideration to criteria that help to better characterize the nature and scope of the company's activities with, and in, the state. Examples of such criteria that may be applicable in particular contexts include:
- What proportion of the company's total assets, revenue, and employees are located in, derived from, or related to business with the state?
 - Does the company provide revenue to the state, either directly or through a government-owned entity or consortium?
 - Does the company provide arms or other military equipment to the state or any organizations sponsored or supported by the state?
 - How long has the company been involved in business activities in the state? Is the company's presence in the state episodic or relatively consistent?
 - Is there a discernible trend towards decreasing business activities by the company in the state?
 - Do the company's activities in the state provide significant benefit to the social or economic welfare of its citizens?
 - Is the company engaged solely or substantially in humanitarian activities?
 - Do the benefits the company provides to the citizens of the state outweigh the negative consequences that its other business activities cause in the state?

Treasury may identify and utilize other appropriate criteria in individual instances.

Treasury will implement the engagement and, where appropriate, divestment procedures of this section with any companies in its portfolios that it concludes are exposed to unacceptable risks to their value as investments. Similarly, Treasury will decline to acquire new positions in companies that its initial investment due diligence reveals to be exposed to such unacceptable risks.

2. Specific Strategic Factors: Environmental and Technology Considerations

It is axiomatic that every business operates within, and is affected to a greater or lesser extent by, its physical environment. Treasury and other fiduciaries, however, are called upon to make investment decisions about companies whose financial performances are more than ever subject to being greatly influenced by their interactions – broadly defined – with that environment. The nature of this influence can take myriad forms. It can range from alterations in climatic conditions affecting the market appeal or profitability of a company's products or limiting its ability to produce them to shortages or price volatility in critical components of production processes. Its nature may also involve profound regulatory changes designed to ameliorate a company's contributions to environmental degradation.

These circumstances will not always manifest themselves in ways that are amenable to easy quantification. They are commonly not encompassed within conventional analyses of potential investment opportunities. Nonetheless, Treasury's mandate to exercise prudence in investing the Commonwealth's assets obligates it to incorporate these strategic considerations into its decision-making.

A number of specific trends or factors demonstrate the potentially pervasive impact of environmental drivers:

- Emerging large economies, especially in India and China, are demonstrating prodigious and rapidly enlarging appetites for common energy sources, creating significant upward distortion in the pricing of the most basic of materials for many economic sectors.
- At the same time, dwindling supplies of petroleum fuels and the high concentration of established reserves in politically antagonistic or unstable regions exacerbate fuel supply uncertainty and promote price volatility, making long-range planning exceedingly difficult.
- Global climate change threatens a wide spectrum of economic interests, including agriculture, recreation, real estate, shipping, offshore oil exploration, insurance, and any business structure located in coastal regions.
- Regulatory responses to climate-change causing greenhouse gas emissions are likely to include limits on carbon releases, introducing a new control requirement that is likely to be costly for many facilities.
- Affirmative regulatory initiatives in Pennsylvania and elsewhere are creating statutory requirements for renewable energy supplies, providing a jump-start for a nascent industry.
- Broad federal and state financing incentives to promote alternative and renewable energy sources are altering the economic prospects of many businesses.

Each of these strategic factors creates the potential for a prudent investor to realize opportunities for superior risk-adjusted rewards from firms positioned to benefit from one or more market trends. Conversely, these considerations obligate the prudent investor to take steps to avoid the risk of losses from investments in firms that have been unable to recognize and adapt to looming threats.

For the purpose of developing a prudent approach to this suite of factors, Treasury defines the relevant areas of investment interest to comprise both firms that should be selected for their prospect of attractive returns and those that should be scrutinized particularly closely in light of their potential for underperformance. Examples from each of these categories include companies that:

- a) develop or market technologies that are more efficient or less polluting, defined here to mean technologies that involve recycling, repurposing, or reducing the quantity of natural resources used in business activities as well as technologies that reduce the amount of emissions, refuse and contaminants released into the environment. These terms would include alternative/renewable energy, energy consumption reduction or management technologies; water technologies; advanced materials technologies that reduce emissions; air purification technologies; technologies related to new or transitional infrastructure; and other comparable technologies;
- b) apply such technologies broadly and effectively to their business processes (including research, development, manufacturing, sales and servicing, as appropriate) to gain competitive advantage over sector peers;
- c) are significantly below their sector's best practices in applying such technologies to business activities; and
- d) are particularly susceptible in their activities to interference from climatic conditions and acts of nature.

Treasury's description of the relevant investment cohort deliberately includes not only companies conspicuously in the business of creating or supplying advanced technologies but also those other companies who have embraced the value of minimizing environmental externalities or reducing the cost of such minimization efforts in their regular business activities. It also includes companies that have fallen behind in implementing such practices, and those whose essential nature exposes them to aggravated risks from an increasingly unpredictable natural environment.

Treasury believes that prudence in the context of these broad and sweeping strategic considerations requires a diversified investment strategy that recognizes opportunities and challenges in a variety of asset categories. Treasury will examine especially closely investment opportunities in Pennsylvania firms that position themselves to benefit from valuable advantages of doing business in the Commonwealth, including the state's

renewable energy portfolio requirements and the public funding support available for alternative energy efforts.

D. Asset Allocation Considerations

In selecting asset classes in which to invest and in allocating assets to various asset classes and financial professionals, the Treasury Department shall balance the following considerations and goals for each program:

1. **Liquidity** - Treasury shall maintain necessary levels of liquidity in order to meet expected and unexpected daily disbursements.
2. **Diversification** - Treasury shall limit overall risk exposure through prudent diversification.
3. **Total Return** - Treasury shall seek to achieve the highest overall returns possible consistent with its investment philosophy and subject to the constraints of meeting cash flow needs and supporting program operating budgets, while not exceeding prudent levels of investment risk.
4. **Long-Term Growth** - Treasury shall seek to provide capital appreciation of investment assets over the long term.
5. **Preservation of Purchasing Value** - Treasury shall strive to maintain an investment strategy that preserves the purchasing value of assets under management.

Treasury may adjust asset allocation targets from time to time to reflect new circumstances, such as changing market conditions or evolving needs of a program's investors.

E. Exigent Cash Requirements and Allocation Imbalances

Exigent cash requirements may occasionally require the Treasury Department to direct financial professionals to liquidate part or all of their portfolios. Treasury shall provide the affected financial professionals with written notice specifying the amount of cash that is required. In such instances, the composition of the financial professionals' portfolios may fall out of compliance with requirements for security exposure, duration, or other Policy criteria. Where appropriate, Treasury shall notify the financial professionals of its intentions regarding restoration of the cash resulting from liquidation and describe an estimated time frame within which the financial professionals are expected to return their portfolios to their original allocations. Treasury shall afford affected financial professionals in all such instances a reasonable opportunity to return their portfolios to compliance with the Policy before they will be considered to be in violation.

F. Prohibited Investment Activity

The Treasury Department prohibits the following investments:

- Options and futures contracts
- Commodities
- Private placements (except 144a securities)
- Real estate properties
- Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs
- Letter stocks
- Short sales
- Margin trading
- Securities issued by China Petroleum and Chemical Corporation, or its subsidiaries

No investments may knowingly be made in the securities of a company where a significant portion of its business operations is related to the manufacture of tobacco products or alcoholic beverages. The determination of whether a company is subject to this prohibition will be made by consideration of publicly available information, including Standard Industrial Classification (SIC) codes.

G. Roles and Responsibilities

1. Treasury Department

The Treasury Department is responsible for managing the moneys of the various programs to generate returns that are consistent with both programmatic requirements and legal limitations on its investments. To achieve these objectives, Treasury shall do the following:

- Establish investment goals for each program and communicate these goals in writing to the appropriate financial professionals on a timely basis.
- Establish reasonable and consistent investment objectives, policies, and guidelines that will direct the investment of each program's assets in accordance with applicable law.
- Meet the liquidity needs of each program's participants.
- Prudently and diligently select qualified financial professionals.

- Establish performance goals for each investment manager and communicate these goals in writing to the managers on a timely basis.
- Regularly monitor the performance of the financial professionals to evaluate progress in attaining investment objectives.
- Develop proper procedures to monitor compliance with this Policy.
- Periodically review and revise the Policy to reflect changing circumstances or experiences.

2. Investment Committee

The Treasury Department shall utilize an Investment Committee to advise and assist the Treasurer in the discharge of his/her statutory duties. The Investment Committee shall consist of the State Treasurer, who shall be the Chairperson; the Chief of Staff; the Deputy State Treasurer for Fiscal Operations; the Deputy State Treasurer for Investments; the Deputy State Treasurer and Chief Counsel; the Senior Portfolio Manager; the Director of Banking and Investment Operations and the Chief Economist. The Investment Committee shall regularly meet once each calendar quarter and on such other occasions as the Chairperson shall direct. Meetings may occur in person, by telephone conference call, or by such other means as the Chairperson deems to be appropriate.

The Investment Committee's responsibilities shall include the following:

- Furnishing advice and recommendations the Treasurer may require on investment policy and investment issues such as selection and retention of investment managers, setting program and investment manager allocations, selecting allowable asset classes, and issuing Requests for Proposals for relevant services.
- Evaluating investment strategies and particular investment options.
- Supervising and evaluating the performance of the financial professionals.
- Monitoring compliance with this Policy.
- Reviewing progress towards achievement of the Treasury Department's investment objectives.
- Performing specific tasks and functions identified in this Policy.

- Adopting amendments to revise this Policy as necessary.
- Performing other tasks and functions as directed by the Treasurer.
- Reviewing waivers granted and exceptions approved.

3. Financial Advisors

The Treasury Department shall retain one or more financial advisors to serve as fiduciary consultants and assist Treasury in achieving the investment objectives of the programs. The financial advisors shall offer advice concerning the management and investment of the programs' assets that is consistent with the investment objectives, guidelines, and constraints established in the Policy. The vast majority of Treasury's investment activity is conducted by its investment managers. Accordingly, assisting in the selection and oversight of the performance of the individual investment managers is a central component of the financial advisors' engagement.

The financial advisors' specific responsibilities include the following:

- Assisting in the development and periodic review of the Policy.
- Designing and presenting formal written recommendations for asset allocation plans and investment horizons for the respective programs, basing these recommendations on, and expressly including reference to, the investment risk tolerances of the various programs.
- Conducting investment manager searches and making recommendations regarding the selection, scope of responsibility, and discharge of investment managers.
- Monitoring and evaluating the performance of the investment managers as described in greater detail in this Policy.
- Communicating matters of policy, investment manager research, and investment manager performance to the Treasury Department.
- Recommending, in writing, appropriate alternative investment strategies and securities.

4. Investment Managers

The Treasury Department shall retain investment managers in sufficient number and diversity to effectively manage the investment of the programs' assets. Treasury may

consider recommendations from the financial advisors in selecting the investment managers. The investment managers shall manage their portfolios subject to oversight by the Investment Committee, with advice from the financial advisors.

Each investment manager shall have authority to make all investment decisions within the applicable asset allocation and specified investment style for its portfolio. Investment managers must exercise this authority consistent with the specific terms of their individual contracts and with the provisions of this Policy. Investment managers may not invest in any assets or vehicles not expressly authorized for use in their contracts. Investment managers are required to act at all times in conformity with applicable state and federal law.

The responsibilities of each investment manager include the following:

- Performing discretionary investment management, including decisions to buy, sell, or hold individual securities.
- Providing investment performance reports to the Investment Committee and relevant financial advisors as described in greater detail in this Policy.
- Providing written notification to the Investment Committee and the appropriate financial advisors of any significant external factors, such as major changes in economic outlook or capital market trends or other relevant circumstances, that may affect the investment strategy or the progress made toward accomplishing investment objectives.
- Informing the Investment Committee, in writing, of any material internal change in its organization that may affect the investment strategy, including, but not limited to, modifications in portfolio management personnel, ownership structure, investment philosophy, or style.
- Notifying the Investment Committee, in writing, when external events have caused the manager's portfolio to include securities that are no longer consistent with the portfolio's intended composition or discipline.
- Requesting in writing to the Investment Committee waivers and/or exceptions to any provisions of this Policy.
- Providing a written report to the Investment Committee of each instance of non-compliance with the Policy within five days of discovery of the non-complying event or circumstance.

H. Investment Classification Guidelines

1. Equity Securities

The Treasury Department invests in equities primarily to realize dividend income and growth through market appreciation of the securities in its portfolios. Treasury evaluates equity investment decisions and performance over horizons appropriate to this objective. No single equity holding in an investment manager's portfolio, measured on trade date, shall exceed 5% of the manager's portfolio, at market value, or exceed 5% of the issuer's outstanding equity.

From time to time, the Treasury Department may assign to an investment manager the task of maintaining a portfolio of securities that tracks a specific index of equities. In such cases, the investment manager's portfolio will not be subject to the provisions of Prohibited Investment Activity (see Page 15) or any limitations on the proportions of any single holding within a portfolio, so long as such portfolio's investments are necessary and appropriate for such an investment strategy.

2. Fixed Income Securities

The Treasury Department invests in fixed income securities to provide stability and predictable income to the programs for which it serves as fiduciary. The fixed income portion of the programs' portfolios may consist of cash, cash equivalents, repurchase agreements, and fixed income investments of short, intermediate, or long-term duration, as well as 144a securities and TRACERS.

Investment managers may only acquire fixed income securities that are rated investment grade on trade date or the Treasury Department deemed to be equally credit worthy prior to their acquisition. Investment managers shall provide prompt written notification to the Investment Committee when any fixed income securities in their portfolios fall below investment grade and make a recommendation regarding retention or disposition of the security. Investment managers assigned a high yield style are exempt from the limitations and notification requirements of this paragraph.

Short-term investment managers may transact in repurchase agreements with the following counterparties: national banks subject to regulation by the Federal Reserve System, nationally recognized money center non-bank financial institutions, Pennsylvania banking institutions, and non-Pennsylvania banking and financial institutions that are authorized to act as principles for their own accounts. Repurchase agreements may be transacted only with counterparties rated one of the two highest short-term credit quality ratings categories by either Standard & Poor's or Fitch.

Short-term investment managers shall transact only in repurchase agreements that are collateralized by United States Government Obligations, including GSEs, deemed

acceptable by the Treasury Department (see Exhibit A) prior to the transaction. For deliverable repurchase agreements, broker/dealers shall deliver collateral to the Treasury's bank accounts. For tri-party agreements, broker/dealers shall deliver collateral to the Treasury's account with an independent third party subcustodian (either a money center bank or a nationally recognized non-bank financial institution). The market value of collateral for each repurchase agreement shall equal at least 102% of the principal and accrued interest of that repurchase agreement.

To maintain a diversified portfolio, a fixed income manager shall ensure that the cumulative value of any single issuer in the manager's portfolio shall not exceed 10% of the overall market value of the manager's portfolio on trade date. An investment manager's portfolio may not contain adjustable rate or variable rate fixed income securities whose total market value on trade date exceeds 15% of the portfolio's market value. Except as otherwise restricted by provisions of the Program-Specific Investment Principles, fixed income investment managers may invest in repurchase agreements and in United States Obligations that are direct obligations of the United States or one of its agencies or instrumentalities, including all GSEs, without regard to the limitations of this paragraph.

The Treasury Department's cumulative exposure to high yield assets in any pool shall not exceed 10% of the market value of that pool at time of allocation.

3. Alternative Investments

From time-to-time, the Treasury Department may contract with investment managers to invest in alternative investments. In such cases, the investment manager's portfolio will not be subject to the provisions of Prohibited Investment Activity (see page 8) or any limitations on the proportions of any single holding within a portfolio, so long as such investments are made in accordance with the investment strategy defined in the investment manager's contract. The objective of these investments will be to provide additional portfolio diversification and the potential for enhanced returns averaged over the life of the investment.

I. Performance Review Procedures

1. Review of Investment Managers

The designated Financial advisors shall submit a monthly written report to the Treasury Department providing a current asset allocation summary and performance evaluation for each investment manager that they are assigned to monitor. The monthly report shall be submitted no later than the last day of the month following the close of the reporting period.

Financial advisors shall submit a quarterly written report to the Treasury Department evaluating the performance of each investment manager that they are assigned to monitor and make recommendations for changes where appropriate. The quarterly report shall be submitted no later than the last day of the month following the close of the reporting period.

Financial advisors shall, on an annual basis, prepare and submit to the Treasury Department comprehensive written evaluations of the performance of each investment manager that they are assigned to monitor. The annual evaluations shall include, but not be limited to, the following:

- Review of actual investment asset performance versus the appropriate market benchmark(s).
- Time period of investment assets under management.
- Soundness of investment approach and philosophy.
- Responsiveness and level of service provided.
- Adherence to the terms of the investment manager's contract and this Policy.
- Review of investment manager personnel assigned to the Treasury-administered investment programs.

Financial advisors shall submit their annual evaluations no later than February 14 following the end of the preceding calendar year.

Investment managers shall cooperate with the relevant financial advisors and will promptly provide them with information required to prepare each of these reviews.

The financial advisors and Treasury Department staff may conduct site visits of investment managers' facilities as part of the review and evaluation function. They may also require interviews of the managers' employees involved in managing the assets of the programs.

In addition, the Treasury Department Bureau of Cash Management and Investments shall conduct periodic reviews of investments to evaluate their performance.

2. Review of Program Performance

On an annual basis, the financial advisors shall prepare and submit to the Treasury Department a comprehensive review of the investment performance of the portfolios for

each of their programs, comparing their performance to appropriate benchmarks and similarly situated portfolios as directed by Treasury. This comprehensive review shall analyze the aggregate investment performance of each program in comparison to the fiscal obligations or expenses for the program projected over a time horizon prescribed by Treasury. The review shall also respond to any other matters that Treasury directs the financial advisors to consider. The report shall be submitted no later than February 14 following the end of the preceding calendar year.

J. Execution of Investments

In placing portfolio transaction orders on behalf of the program, investment managers shall obtain execution orders through responsible brokerage firms at competitive prices and at reasonable commission rates. Financial professionals shall utilize the best execution rule. Investment managers engaged in equity investing shall execute trades on the auction markets (NYSE and AMEX) at a rate as close to the execution-only cost as practical. Managers executing trades on the dealer markets (NASDAQ) shall act in strict conformance with the best interests of the appropriate pool or fund. Financial professionals shall give preference to Pennsylvania banks, financial institutions, and non-financial institutions, when appropriate, in the purchase or sale of statutorily authorized investments.

Investment managers shall invest the highest practical amount of available cash in order to keep uninvested cash balances to a minimum.

K. Securities Lending Program

The Treasury Department may retain an agent to administer a securities lending program for certain Commonwealth portfolios. From time to time, parties may negotiate a fee to borrow Commonwealth securities from the agent, provided that the borrowers pledge acceptable collateral. No agent administering a securities lending program for Treasury shall be authorized to borrow Commonwealth securities.

The portfolios of the Commonwealth Investment Program, the Tuition Account Program Guaranteed Savings Plan, and the Treasury Global Investment Fund may participate in the securities lending program.

L. Compliance, Internal Audits, Investigations, and External Audits

The Treasury Department Bureau of Cash Management and Investments shall perform periodic compliance reviews of the various funds and programs subject to this Policy. The Bureau shall provide written notice of any instances of non-compliance to the Investment Committee, the Deputy State Treasurer for Audits and Investigations, and the Director of the Office of Internal Audits.

The Office of Internal Audits will conduct periodic audits of the Bureau of Cash Management and Investments. Audits may include examinations of controls in place, Policy non-compliance issues and/or a review of Bureau policies and procedures. Upon request from the Treasury Department, investment managers shall facilitate the Office of Internal Audit's collection of information related to such audits by providing access to their employees and facilities.

At the direction of the Deputy State Treasurer for Audits and Investigations, the Office of Investigations may conduct special investigations from time to time. Upon request from the Treasury Department, investment managers shall facilitate the Office of Investigation's collection of information related to such investigations by providing access to their employees and facilities.

In addition to these reviews and audits, the Pennsylvania Department of the Auditor General may perform audits of the funds and programs described in this Policy. This external audit function is designed to provide the additional level of confidence associated with an independent third-party review.

M. Waivers and Exceptions of Policy Provisions

The Treasury Department maintains the authority to grant waivers and approve exceptions to any provisions of this Policy.

Following a written request to the Investment Committee from a financial professional seeking prior approval, the Treasury Department may grant a waiver of a provision of the Policy if it determines that strict adherence would have a detrimental economic effect upon one or more Treasury programs, or would otherwise be contrary to public policy. Treasury may also grant a waiver if it determines that an investment not authorized by this Policy is nonetheless appropriate and in the best interests of one or more Treasury programs. Treasury may limit the length of time for which a waiver is effective.

Following a discovery of an instance of non-compliance, the Treasury Department may allow an investment manager a reasonable amount of time to liquidate or otherwise correct the Policy violation. Alternatively, Treasury may approve a temporary or indefinite exception to a provision of the Policy if it determines that actions required to bring a portfolio or position into compliance would have a deleterious economic effect upon one or more Treasury programs or would otherwise be contrary to public policy.

The Treasury Department shall not grant a waiver or approve an exception that would result in an investment prohibited by law.

The Treasury Department shall maintain a record of all waivers granted and exceptions approved. The Investment Committee will provide prompt written notice of such waivers

and exceptions to the Bureau of Cash Management and Investments and to the Office of Internal Audits.

N. Effective Date, Annual Review and Amendments

This Policy shall be effective July 1, 2006, restated February 14, 2008. The Investment Committee shall review the Policy annually. The Investment Committee may amend this Policy at its discretion at any time. All amendments to this Policy shall be in writing and described in Exhibit B, which shall be captioned “Amendments to the Treasury Investment Policy.”

III. PROGRAM-SPECIFIC INVESTMENT PRINCIPLES

A. Commonwealth Investment Program

1. Introduction

The Treasury Department manages and invests moneys of the Commonwealth that have accumulated beyond the ordinary needs of the various funds through the Commonwealth Investment Program. These moneys must also remain available to the Commonwealth to make payments for various operational expenses and other obligations. Treasury has created two separate pools within the Commonwealth Investment Program (see Exhibit C), each with its own distinct investment strategies, goals, and holdings that reflect differing needs of Commonwealth funds for income, cash flows, and investment risk tolerance.

The Liquid Asset Pool (Pool 99) seeks to maintain a stable NAVPS by investing exclusively in fixed income securities, primarily of short duration. It is designed to generate income while minimizing investment volatility by protecting principal and maximizing availability of balances through ownership of only very liquid investments.

The Common Investment Pool (Pool 98) is a variable NAVPS investment vehicle that seeks to generate additional investment return over time by investing in fixed income and equity securities, as more fully described below. It is designed to generate both income and capital appreciation over long periods of time for funds that can sustain a small measure of short-term price volatility.

The Common Investment Pool comprises the following three investment categories:

- Short-Term Diversified Category, which may consist of short-term fixed income securities. The portfolios of this category are considered part of a Short-Term Component or a Two-Year Duration Target Component.

- Mixed-Term Diversified Category, which may consist of fixed income (including high yield) and equity securities, as well as alternative investments. The fixed income securities include short, intermediate, and long-term securities. The equity securities may range from small cap securities to large cap securities.
- Discretionary Assets Category, which may consist of certain multiple purpose investments such as the Homebuyer Program, the Agri-Link Program, the Commonwealth Time Deposit Program, the PHEAA HelpStart Program, Hospital Enhancement Loan Program, KeystoneHELP Program, and State of Israel Bonds.

2. Investment Standards for Liquid Asset Pool and the Short-Term Diversified Category of the Common Investment Pool

The Liquid Asset Pool and the Short-Term Diversified Category of the Common Investment Pool may invest in fixed income securities. The following instruments are approved fixed income securities for investments by the pools:

- Securities issued by the United States Government and its agencies
- Corporate bonds rated Aa3/AA- or better at trade date
- Aaa/AAA rated non-agency-backed Asset Backed Securities (ABS), Commercial Mortgage Backed Securities (CMBS) and Collateralized Mortgage Obligations (CMO), up to a maximum of 10% each, with a combined maximum of 20%, of the market value of any portfolio at trade date
- Taxable municipal securities rated Aaa/AAA or better up to a maximum of 10% of the market value of any portfolio at trade date
- Adjustable rate securities up to 15% of the market value of any portfolio at trade date
- Mortgage-backed securities shall have final maturity that does not exceed 5 years from trade date
- Domestic negotiable certificates of deposit rated A-1 or better and P-1 or better
- Repurchase agreements collateralized at 102% of the market value plus accrued interest (see Exhibit A)
- Commercial paper rated A-1 or better and P-1 or better
- Money market funds rated AAA or its equivalent
- Sweep vehicles approved by Treasury

The maximum term on securities in the Liquid Asset Pool and in the Short-Term Component within the Short-Term Diversified Category of the Common Investment Pool shall be 13 months unless the issue has been currently called or unless otherwise specified in this Policy. However, adjustable securities that reset no less frequently than quarterly may have a final maturity of two years. The maximum weighted average

maturity in the Liquid Asset Pool and in the Short-Term Component within the Short-Term Diversified Category of the Common Investment Pool shall be 130 days.

- For the Two-Year Duration Target Component, the maximum term on securities shall be five years unless the issue has been currently called or unless otherwise specified within this Policy. Adjustable securities that reset no less frequently than quarterly may have a final maturity of five years. The maximum weighted average portfolio duration shall be two years.

3. Investment Standards for the Mixed-Term Diversified Category of the Common Investment Pool

The portfolios in the Mixed-Term Diversified Category may invest in the following fixed income securities:

- Securities issued by the United States Government and its agencies
- Investment grade corporate bonds
- Aaa/AAA rated non-agency-backed Asset Backed Securities (ABS), Commercial Mortgage Backed Securities (CMBS) and Collateralized Mortgage Obligations (CMO), up to a maximum of 10% each, with a combined maximum of 20%, of the market value of any portfolio at trade date
- Taxable municipal securities rated Aaa/AAA or better up to a maximum of 10% of the market value of any portfolio at trade date
- Adjustable rate securities up to 15% of the market value of any portfolio at trade date

For portfolios in the Mixed-Term Diversified Category, investment managers shall ensure that investments in fixed income portfolios comply with the following requirements:

- The maximum term for any single security shall be 40 years for the Mixed-Term Diversified Category.
- The final maturity for mortgage-backed securities shall not exceed 40 years from trade date.
- The maximum weighted average portfolio duration for the Mixed-Term Diversified Category shall be as follows:
 - a) for intermediate term securities, 6 years
 - b) for long-term securities, 20 years

B. Tuition Account Program Guaranteed Savings Plan

1. Introduction

The Treasury Department is authorized, pursuant to the Tuition Account Program and College Savings Bond Act, 24 P.S. § 6901.101 *et seq.* (“the College Savings Act”), to administer two programs for postsecondary educational savings – the Tuition Account Program Guaranteed Savings Plan (GSP) and the Tuition Account Program Investment Plan (IP). The College Savings Act requires Treasury to administer both programs in such a manner as to ensure and maintain their status as “qualified State tuition programs,” as defined in Section 529 of the Internal Revenue Code, 26 U.S.C. § 529. The Policy set forth here applies solely to the GSP.

The College Savings Act requires the policies governing the investment of the GSP’s funds to be directed to obtaining sufficient income to meet the fund’s obligations, maintaining necessary reserves, and covering operating expenses. The Treasury Department has the authority to invest and reinvest the funds of the GSP in all lawful investments. The investment policies are to provide for an appropriate balance of risk, liquidity, and return commensurate with the management of a prudent investor. On an annual basis, an independent certified public accounting firm and/or the Pennsylvania Department of the Auditor General audits the operations and financial statements of the GSP.

2. Investment Practices

The portfolio of the GSP may consist of fixed income and equity securities, as well as alternative investments. The fixed income securities may include short, intermediate, and long-term securities. The equity securities may range from small cap securities to large cap securities. The specific allocations of securities for the GSP reflect investment goals that incorporate data provided to the program by its actuaries.

C. The INVEST Program

1. Introduction

The Fiscal Code authorizes the Treasury Department to receive and serve as custodian for any moneys deposited with it by local governmental units (county, city, borough, incorporated town, township, school district, or other unit of government, authorities, boards, commissions) and by non-profit and charitable organizations (colleges, community colleges and universities, hospitals, libraries, and fire companies). 72 P.S. § 3832. Treasury manages and invests moneys entrusted to it from these sources through the INVEST Program. INVEST combines these moneys into the Local Government Pool and the Community Pool, respectively.

The Local Government Pool, a rated pool, is available to all governmental entities and currently consists of a single portfolio. The Community Pool is available to non-governmental entities, and is also a rated pool that currently consists of a single portfolio.

The Treasury Department's objective is to maintain the highest possible investment ratings for these pools.

The Pennsylvania General Assembly has enacted laws that impose restrictions upon the scope of assets and vehicles into which local government units may invest. Applicable statutory provisions limiting the investment authority for local government units are as follows:

- Second Class Counties: Section 1964 of the Second Class County Code (16 P.S. § 4964).
- Third through Eighth Class Counties: Section 1706 of The County Code (16 P.S. § 1706).
- Cities of Philadelphia, Pittsburgh, and others, as applicable: by Home Rule Charters.
- Third Class Cities: Section 1804.1 of The Third Class City Code (53 P.S. § 36804.1).
- Boroughs: Section 1316 of the act of Feb. 1 1966 (1965) (P.L. 1656, No. 581) (53 P.S. § 46316), known as the Borough Code.
- Incorporated Towns: Section 1 of the act of July 3, 1980 (P.L. 372, No. 93) (53 P.S. § 53154.1), relating to incorporated towns.
- Townships: Section 1705.1 of The First Class Township Code (53 P.S. § 56705.1).
- School Districts: Section 440.1 of the Public School Code of 1949 (24 P.S. § 4-440.1).
- Municipal Authorities: 53 Pa.C.S.A. § 5611 (relating to the Municipal Authorities Act).

The Policy establishes standards that restrict the two pools to only those investment securities authorized by law for their respective governmental or community participants. In no event shall these standards be interpreted to authorize investments that are inconsistent with or contrary to the applicable statutory authority of the governmental or community participants.

To maintain their positions as rated pools, the Local Government Pool and the Community Pool are further restricted to investments that also satisfy criteria established by Standard & Poor's and Fitch. These criteria may be more limiting than the provisions of Pennsylvania statutory law authorizing permissible investment assets or vehicles.

Particular governmental and community participants may be subject to varying local individual investment limitations that are more restrictive than those observed by the INVEST Local Government and Community Pools. It is not practical for these common pools to attempt to further limit their investments to conform to the constraints of each potential investor. The Treasury Department offers non-rated custom pools to meet the

unique needs of specific shareholder participants. Investments for custom pools, which are non-rated, must be consistent only with the investment authority applicable to the participants for each particular pool.

All INVEST pools are limited to investing in fixed income securities that are expressly authorized for their respective participants.

Due to limitations on the investment authority of certain participating shareholders, no INVEST funds may be invested in banker's acceptances or in corporate notes, bonds, or commercial paper.

2. Investment Criteria for INVEST Rated Pools

a) General Standards

Within classes of statutorily authorized investment assets and vehicles, individual investments shall be consistent with maintenance of a rating of "AAAm" or better from Standard & Poor's and a rating of "AAA/V1⁺" or better from Fitch.

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

Transactions in overnight repurchase agreements shall not exceed:

- with any S&P A1⁺ rated counterparty, 40% of the assets of each pool, including any existing term repurchase agreements with the same counterparty.
- with any S&P A1 rated counterparty, 25% of the assets of each pool, including any existing term repurchase agreement with the same counterparty.

Transactions in term repurchase agreements shall not exceed:

- for two to seven-day agreements
 - a) 25% of the assets of the pool entered into with any S&P A1⁺ rated counterparty, or
 - b) 10% of the assets of the pool entered into with any S&P A1 rated counterparty.
- for eight to thirty-day agreements
 - a) 10% of the assets of the pool, or
 - b) 10% of the assets of the pool entered into with any S&P rated A1⁺ counterparty, or
 - c) 10% of the assets of the pool entered into with any S&P rated A1 counterparty.

An investment manager shall not transact in any term repurchase agreements that have maturity dates exceeding 30 days. Investment managers shall not transact in term repurchase agreements with counterparties who have ratings of A2 or lower.

An investment manager shall not engage in “loan” structured or reverse repurchase agreements. The managers are restricted to “buy/sell” structured repurchase agreements.

Collateral pledged for INVEST Program tri-party and deliverable repurchase agreements must be secured by United States Government Obligations and/or Government National Mortgage Association Obligations only. For deliverable repurchase agreements only, the collateral must have a maturity of four years or less, with a preference given to United States Treasury Bills.

An investment manager may invest in domestic certificates of deposit and money market funds subject to the following limitations:

- Domestic certificates of deposit must be purchased from banks rated A or better by nationally recognized rating agencies.
- Non-rated domestic certificates of deposit investments are permitted subject to a maximum value of \$100,000 for each certificate.
- Domestic certificates of deposit shall be collateralized at 120% of the purchase price plus the total accrued interest. The collateral shall consist of United States Government Obligations having a maturity of four years or less.
- Money market funds must be rated AAA or equivalent by nationally recognized rating agencies.
- No single issuer may exceed 5% of the assets, at market value, of any INVEST portfolio at trade date.
- The cumulative total of money market fund investments may not exceed 10% of the assets, at market value, of any INVEST portfolio.

Investments in United States Government Obligations are restricted to those with maturity dates no longer than 397 days (13 months) from trade date. Rates may be fixed or variable.

b) Additional Investment Standards For INVEST Pools

The Treasury Department shall manage the INVEST pools to ensure that the weighted average maturity for each of the INVEST Pools will not exceed 60 days at any time.

The Treasury Department shall monitor the NAVPS daily. Treasury shall implement procedures in compliance with the following plan in the event that the NAVPS falls below \$1.00:

- If the NAVPS declines to \$0.9985, the Director of Trading, or his or her designee, shall notify the Investment Committee and request that it review the cause of the decline and recommend corrective action. Treasury may consult with the financial advisor and investment manager in devising a plan of action to return the NAVPS to the acceptable range. Treasury may consider realigning the specific pool's portfolio, adjusting the weighted average maturity, or other appropriate actions. The Investment Committee may determine that the NAVPS is likely to rise back above \$0.9985 per share without Treasury intervention and therefore make no recommendation for further action. Treasury shall report daily to Standard & Poor's and Fitch as long as the NAVPS remains at \$0.9985 per share or below.
- If the NAVPS declines to a level of \$0.9975 per share, the Director of Trading, or his or her designee, shall notify the Investment Committee. Treasury, after such consultations as it deems prudent, shall recommend appropriate affirmative action to return the NAVPS to the acceptable range.

3. External Auditor

The financial statements of the INVEST Program are audited annually by an independent CPA firm and/or the Pennsylvania Department of the Auditor General. The external audit function is designed to provide the additional level of confidence associated with an independent third party review.

D. The Treasury Global Investment Fund

1. Introduction

The Treasury Department serves as custodian for the investment assets of various funds whose boards the Commonwealth has authorized to make investments. Typically, these boards retain their own investment managers to manage various portfolios and then allocate cash to the managers for the purpose of making investments. Treasury established the TGIF (Pool 124) to serve as a short-term investment vehicle for the cash from such funds that the investment managers have not directly invested. The TGIF allows these cash balances to enjoy investment benefits but remain highly liquid for future use by the funds' investment managers.

2. Specific Investment Standards For TGIF

TGIF seeks to maintain a stable NAVPS by investing exclusively in fixed income securities, primarily of short duration. It is designed to generate income while minimizing investment volatility by protecting principal and maximizing availability of balances by holding only very liquid investments.

The Treasury Department has approved the following instruments for investment:

- Securities issued by the United States Government and its agencies
- Corporate bonds rated Aa3/AA- or better at trade date
- Aaa/AAA rated non-agency-backed Asset Backed Securities (ABS), Commercial Mortgage Backed Securities (CMBS) and Collateralized Mortgage Obligations (CMO), up to a maximum of 10% each, with a combined maximum of 20%, of the market value of any portfolio at trade date
- Taxable municipal securities rated Aaa/AAA or better up to a maximum of 10% of the market value of any portfolio at trade date
- Adjustable rate securities up to 15% of the market value of any portfolio at trade date
- Mortgage-backed securities shall have final maturity that does not exceed 5 years from trade date
- Domestic negotiable certificates of deposit rated A-1 or better and P-1 or better
- Repurchase agreements collateralized at 102% of the market value plus accrued interest (see Exhibit A)
- Commercial paper rated A-1 or better and P-1 or better
- Money market funds rated AAA or its equivalent
- Sweep vehicles approved by Treasury

The maximum weighted average maturity of each portfolio is 130 days. The maximum term on securities should not exceed 13 months unless the issue has been currently called or unless otherwise specified in these standards. Adjustable securities that reset no less frequently than quarterly may have a final maturity of two years.

EXHIBIT A

SCHEDULE OF ELIGIBLE COLLATERAL
(Commonwealth Investment Program, GSP, TGIF)

<u>UNITED STATES TREASURIES</u>	<u>MARGIN %</u>	
Bills	102	
Bonds	102	
Notes	102	
Strips (Principal Only)	102	
<u>AGENCY DEBENTURES</u>	<u>MARGIN %</u>	
FAMC	102	
FCFAC	102	
FFCB	102	
FmHA	102	
FHLB	102	
FHLMC	102	
FICO (Principal Only)	102	
FLBB	102	
FNMA	102	
REFCO (Principal Only)	102	
SLMA	102	
<u>GNMA</u>	<u>MARGIN %</u>	
Trust Receipts	102	102
GNMA I/II Single Family	102	
GNMA I/II – Others – Fixed Rate	102	
GNMA I/II – Others – Adjustable Rate (Overnight Only)	102	
<u>AGENCY MORTGAGE BACKS</u>	<u>MARGIN %</u>	
Trust Receipts	102	
Pass Throughs – Fixed Rate	102	
Pass Throughs – Adjustable Rate (Overnight Only)	102	
<u>CASH</u>	<u>MARGIN %</u>	
	100	

**SCHEDULE OF ELIGIBLE COLLATERAL
(INVEST)**

<u>UNITED STATES TREASURIES</u>	<u>MARGIN %</u>	
Bills	102	
Bonds	102	
Notes	102	
Strips (Principal Only)	102	
<u>GNMA</u>	<u>MARGIN %</u>	
Trust Receipts		102
GNMA I/II Single Family	102	
GNMA I/II – Others – Fixed Rate	102	
GNMA I/II – Others – Adjustable Rate (Overnight Only)	102	
<u>CASH</u>	100	

EXHIBIT B

AMENDMENTS TO THE TREASURY INVESTMENT POLICY

12/04/2008 Addition of Schedules D, E, F

COMMONWEALTH INVESTMENT PROGRAM

Common Investment Pool: Pool 98			Liquid Asset Pool: Pool 99	
<i>Short-Term Diversified Category</i>		<i>Mixed-Term Diversified Category</i>	<i>Discretionary Assets Category</i>	
<u>Short-Term Component</u>	<u>Two-Year Duration Target Component</u>			
<p>Includes: Short-term fixed income securities with a maximum term not greater than 13 months, unless currently called. Adjustable instruments that reset no less frequently than quarterly may have a final maturity of two years. The maximum weighted average maturity shall be 130 days.</p>	<p>Includes: Fixed income securities with a maximum term not greater than five years, unless currently called. Adjustable instruments that reset no less frequently than quarterly may have a final maturity of five years. The maximum weighted average maturity duration shall be two years.</p>	<p>Includes: Equity securities ranging from small cap to large cap; Fixed income securities of short, intermediate and long-term duration.</p>	<p>Includes: Homebuyer Program, Agri-Link Program, Commonwealth Time Deposit Program, PHEAA HelpStart Program, Hospital Enhancement Loan Program, KeystoneHELP Program, and State of Israel Bonds.</p>	<p>Includes: Short-term fixed income securities with a maximum term not greater than 13 months, unless currently called. Adjustable instruments that reset no less frequently than quarterly may have a final maturity of two years. The maximum weighted average maturity shall be 130 days.</p>

TREASURY INVESTMENT CENTER PROGRAM BENCHMARKS AND RISK MEASURES

INVESTMENT PROGRAM	ALLOCATION	BENCHMARK	RISK
POOL 65		Merrill Lynch 3-month US Treasury Bill Index	130 day WAM
POOL 98			
Enhanced Cash	Refer to Exhibit E	30% S&P 500 / 60% Lehman Aggregate /10% MSCI EAFE	≤5.0 Std Dev
Strategic Investment Opportunities	Refer to Exhibit F	6-month LIBOR	N/A *
Cash		Merrill Lynch 3-month US Treasury Bill Index	130 day WAM
POOL 99		Merrill Lynch 3-month US Treasury Bill Index	130 day WAM
POOL 124		Merrill Lynch 3-month US Treasury Bill Index	130 day WAM
INVEST POOLS		Merrill Lynch 3-month US Treasury Bill Index	60 day WAM
HES		Merrill Lynch 3-month US Treasury Bill Index	60 day WAM
CFA		Merrill Lynch 3-month US Treasury Bill Index	130 day WAM
CONCENTRATION ACCOUNT		N/A	N/A
OPEB		8.5% net return	≤11 Std Dev
TAP GSP	Refer to Exhibit E	60% S&P 500 / 30% Lehman Aggregate /10% MSCI EAFE	≤10 Std Dev
TAP IP	Participants select/own investments	N/A	N/A

* Due to the unique nature of these programs and their underlying investments, no specific risk measure has been assigned to this category. However, investments are required to be made in accordance with Treasury's Investment Policy guidelines.

Target Allocations For Pool 98 Enhanced Cash and TAP GSP

Exhibit E

			Data	
Class	Asset Class	Representative Benchmark	Pool 98 Enhanced Cash	TAP GSP
ALT	Alternative - Absolute Ret	Absolute Return		
	Alternative - Commodities	DBC - PowerShares DB Commodity Index Tracking Fund		
	Alternative - Hedge	Not Defined	2.9%	3.5%
	Alternative - Private Equity	Absolute Return	0.1%	5.0%
	Alternative - REIT	Dow Jones U.S. Real Estate index	3.0%	2.5%
	Alternative - Whole Loans	Not Defined		
ALT Total			6.0%	11.0%
CASH	Cash / Cash Equivalents	91-Day Treasury Bill		3.0%
CASH Total				3.0%
EQ	Equity - Emerging Mkts	EEM - iShares MSCI Emerging Markets Index	1.0%	
	Equity - Green	85% NASDAQ / 15% Lipper Balanced	1.0%	
	Equity - International	MCSI EAFE	3.0%	9.0%
	Equity - Large Cap Core	Standard & Poors 500	14.0%	27.0%
	Equity - Large Cap Growth	Russell 1000 Growth	3.0%	8.0%
	Equity - Large Cap Value	Russell 1000 Value or Standard & Poors 500	2.0%	
	Equity - Mid Cap Core	S & P Mid Cap 400		6.0%
	Equity - Mid Cap Growth	Russell Mid Growth		
	Equity - Small Cap Core	Russell 2000	4.0%	
	Equity - Small Cap Growth	Russell 2000 Growth		3.0%
Equity - SMid Cap	Russell Mid Growth	4.0%		
EQ Total			32.0%	53.0%
FI	Fixed - Core/Aggregate	Leh Agg/Tsy basket	11.0%	4.0%
	Fixed - High Yield Agg	Merrill Lynch HY II Bond	2.0%	
	Fixed - High Yield Mod	Merrill Lynch HY Cash Pay BB-B		
	Fixed - Intermediate	Leh Int Gov Cdt/Tsy basket	10.0%	15.0%
	Fixed - International Bonds	Leh Gbl Agg ex US/Tsy basket	2.0%	
	Fixed - Long Term	Not Defined		
	Fixed - Mortgages	Leh US MBS/Tsy basket	6.0%	4.0%
	Fixed - TIPS	TIP - iShares Lehman TIPS Bond ETF	7.0%	
	Fixed - Oppor. Credit	Absolute Return > 10%	4.0%	8.0%
	Fixed - Short Term	ML 1-3 or 1-5 Tsy Agy	20.0%	2.0%
FI Total			62.0%	33.0%
n/a	n/a	n/a		
n/a Total				
Grand Total			100.0%	100.0%

Target Return	S&P 500 / Lehman Aggregate Bond/MSCI EAFE	30% / 60% / 10%	60% / 30% / 10%
Target Risk	Standard Deviation	5	10
Target Allocation Range	± 25% of the allocation unless allocation is ≤ 12%, then ± 3% of the pool		
Manager Concentration - % AUM	Maximum % of Firm AUM*	Target 10% Max Range 0-20%	Target 10% Max Range 0-20% *
Manager Concentration - % Fund	Maximum % of any Single Treasury Fund	Target 10% Max Range 0-20%	Target 10% Max Range 0-20%

* Excludes Emerging Managers

POOL 98 STRATEGIC INVESTMENT OPPORTUNITIES (SIO) ALLOCATIONS AND BENCHMARKS

Security Type	Program Name	Treasury Benchmark	SIO Targets
Municipal Securities	PHEAA (Line of Credit & Note)	Fed Funds Target + 25bp	≤1.5% Enhanced
Time Deposits*	BF&R Mandated Time Deposits	Merrill Lynch 6-Mo T-Bill + 35bp	N/A
Certificates of Deposit	Agri-Link	Merrill Lynch 6-Mo T-Bill + 50bp	≤1.5% Enhanced
Certificates of Deposit	Better Choice	6-Month LIBOR BBA USD	≤1.5% Enhanced
Certificates of Deposit	Hospital HELP	Merrill Lynch 6-Mo T-Bill + 50bp	≤1.5% Enhanced
International Bonds	State of Israel Bonds	6-Month LIBOR BBA USD + 50bp	≤1.5% Enhanced
Whole Loans	Keystone HELP	Merrill Lynch 6-Mo T-Bill + 50bp	≤1.5% Enhanced
Federal Agencies	Agri-Link	Merrill Lynch 6-Mo T-Bill + 50bp	≤1.5% Enhanced
SIO Total (excluding Time Deposits & PHEAA)		6-Month LIBOR	≤5.0% Enhanced

* Time Deposits are required by Fiscal Code and the Board of Finance and Revenue.