



Medical College of Georgia

Administrative
Policy Library

Investment Policy

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Policy Statement

The Medical College of Georgia is required by the Board of Regents to have an Investment Policy. The Policy and related [Investment Guidelines](#) are intended to promote sound and prudent judgment in the management of investment assets, consistent with the fiduciary responsibility of the institution.

Reason For Policy

This Policy outlines the goals and investment objectives of the investment assets administered by the Medical College of Georgia. This Policy also assigns responsibilities to help ensure the accomplishment of the goals and objectives. This Policy will refer to Investment Guidelines which will govern the actual administration of investment assets. The Policy and Guidelines will describe various types of investments considered appropriate or MCG's various pools of assets.

Entities Affected By This Policy

The Finance Division, including the SVP Finance & Administration, Senior Advisor for Investments and Business Planning, Controller, and Assistant Controllers will be involved in activities covered by this Policy.

Who Should Read This Policy

This Policy should be read by entities affected by this policy, members of the Investment Policy Committee and MCG's President.

Contacts

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Website Address For This Policy

<http://www.mcg.edu/policies/>

Related Documents

None

Definitions

- **Investment Advisor:** An outside institutional custodian/advisor for investment assets belonging to MCG. Investment advisors may employ Investment Managers who manage specific portfolios of investments.
- **Investment Assets:** Cash, marketable securities or shares and limited partnership interests of Funds containing cash, marketable securities, and interests in other Funds.
- **Idle Cash:** State appropriations, sponsored receipts, liquidated accounts receivable, auxiliary revenues, tuition revenues and other revenue items in MCG's possession that will not be expended immediately, and that have the potential to produce short-term investment income.
- **Endowment:** Gifts of cash and securities to MCG, made in the past, and currently invested for the perpetual benefit of MCG. These assets are separate and distinct from similar gifts held by MCG Foundation or Georgia Health Sciences University Foundation.
- **Early Retirement Plan (ERP):** A Board of Regents and Internal Revenue Service approved one-time plan instituted in year 2000 by MCG and accepted by approximately 720 former employees.
- **Guidelines:** Provides the details of the Investment Policy. Guidelines could also be called "operating procedures". Guidelines may contain contextual and historical information about MCG designed to help a new employee or Committee member understand the practical application of the Investment Policy. Guidelines are likely to require revision more frequently than the Investment Policy.

Overview

This Policy and Investment Guidelines will be reviewed and revised periodically to ensure they adequately reflect changes related to MCG and to the capital markets.

Investment Policy will be recommended to the President by an Investment Policy Committee consisting of:

Senior Vice President for Finance and Administration (CFO), with primary responsibility for administering MCG's cash and investments.

Controller.

Senior Advisor, Investments/Business Planning (will function as chairman of the Committee).

Senior Vice President and Provost.

Senior Vice President for Health Affairs.

Associate Senior Vice President for Finance and Administration.

Others that may be appointed by the SVP Finance or the President.

The Investment Policy Committee will meet no less than once per year to:

Review Investment performance.

Review and recommend Investment Advisors to SVP Finance and Administration.

Recommend to Cabinet any necessary changes to this Investment Policy.

Revise Guidelines.

Responsibilities

The responsibilities each party has in connection with *Investments*, are:

<p>Chief Financial Officer</p>	<ul style="list-style-type: none"> • Act as prudent steward of the institution's cash and investments. • Form and maintain an Investment Policy Committee that will recommend and implement investment policy for MCG, to include revising Guidelines as necessary. • Identify types of financial assets and appropriate time horizons for each asset type. • Develop investment goals, objectives, and performance measurement standards, which are consistent with the needs of the institution. • Determine, with the advice of
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	<p>Investment Advisors, how the various pools of financial assets should be allocated.</p> <ul style="list-style-type: none"> • Communicate the investment goals, objectives and standards to any Investment Advisors that may be used by the institution; and promptly report to those Advisors how the various pools of financial assets should be allocated among various asset classes. • Review and evaluate the results of any Investment Advisors, in the context of established, conventional standards of performance. • Notify Investment Advisors of significant changes in cash flow, cash flow needs, changes in investment time horizon, and any matter that bears upon the proper investment management of MCG’s financial assets.
<p>Investment Policy Committee</p>	<ul style="list-style-type: none"> • Accepts authority from MCG to recommend and implement Investment Policy for the institution, to include revising the Guidelines as necessary. • Accepts oversight responsibility for MCG’s cash and investments, for which the CFO has primary responsibility. • Recommends to CFO Investment Advisors based upon its perception of overall experience, measures of investment results, quality of periodic reporting, and costs; recognizing that these • standards may be more subjective than objective; and past

	<p>performance is no guarantee of future performance.</p>
<p>Senior Advisor for Investments and Business Planning</p>	<ul style="list-style-type: none"> • Accepts authority from the Chief Financial Officer for administering and implementing the Investment Policy and Guidelines. • Recommends Investment Advisors and performance measurement standards to the Investment Policy Committee. • Serves as primary contact between MCG and Investment Advisors. • Monitors MCG’s cash position for the purpose of maximizing short-term investment returns. • On a continuous basis, reports investment results to members of the Investment Policy Committee. • Makes recommendations to the Committee regarding any issue that may affect Investment Policy. • Remains continuously informed of the state of US and international financial markets through regular contact with Investment Advisors, financial periodicals, and other media sources. • Continuously reports interesting developments to members of the Investment Policy Committee.

Investment Advisors	<ul style="list-style-type: none">• Manage MCG’s Investments in a manner consistent with the objectives and constraints outlined in this Investment Policy and Guidelines.• Manage MCG’s Investments in accordance with Federal and State Laws.• Manage MCG’s Investments in accordance with conventional prudence and all regulations and customs associated with professional financial fiduciaries.
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Forms

None

**Medical College of Georgia
Investment Guidelines**

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I. Introduction

Purpose of INVESTMENT GUIDELINES

These GUIDELINES are intended to be the operational detail and historical context of MCG's INVESTMENT POLICY STATEMENT.

The INVESTMENT POLICY document is purposefully brief and designed to require little change over the years.

INVESTMENT GUIDELINES contain operational details, which may need to change as changes occur in financial markets and MCG's needs and circumstances.

This document outlines certain specific investment strategies that will govern how the goals and investment objectives of INVESTMENT POLICY are to be achieved. This GUIDELINES document:

- Identifies various pools of assets.
- Specifies the appropriate time horizon for the pools or subdivisions of the pools.
- Specifies the target asset allocation for each pool.
- Establishes investment guidelines regarding diversification and permissible securities.
- Specifies the criteria for evaluating the performance of the assets.

It must be understood that there can be no guarantee regarding the attainment of investment goals and objectives. MCG management has a fiduciary responsibility to achieve the best rate of return possible, consistent with prudent stewardship.

In May, 2009, these GUIDELINES applied to financial assets with a value of more than \$141,000,000 (Endowment \$5,000,000; Early Retirement Plan \$34,000,000; checking account and short-term investments averaging over \$100,000,000).

II. Information about Medical College of Georgia

MCG has some old endowment money, received prior to the creation of the MCG Foundation. These old endowment funds have a total market value, in 2008, of more than \$5,000,000.

In calendar year 2000, MCG instituted an Early Retirement Plan (ERP) that was ultimately accepted by more than 720 employees who are now receiving retirement benefits from the Plan. Nearly \$34,000,000 is presently set aside for future benefits. About \$13,200,000 will be contributed to the Plan in fiscal 2010, while about \$11,900,000 per year is presently being paid out in benefits. The \$1,300,000 difference will be added to the above-mentioned \$34,000,000 already set aside.

Contributions to ERP should cease in 2023, and the accumulated, invested ERP Fund is intended to then be sufficient to pay all benefits until the last retiree (or spouse) has died, probably after 2060.

Annually, MCG receives hundreds of millions of dollars of revenues from many sources, including State appropriations, student tuition, research grants, auxiliary services, and for services MCG provides to other institutions, such as Physicians Practice Group, Medical College of Georgia Healthcare, Incorporated, Georgia War Veterans Nursing Home, and Georgia Correctional Health Care. These funds are all deposited to MCG's checking account. These funds are regularly received days, weeks, or months in advance of the date of their designated expenditure. These temporarily "idle" funds provide MCG with an opportunity for short-term investment income.

III. Responsibilities of Investment Advisors

Fiduciary Responsibilities

Investment Advisors are expected to manage MCG's assets in a manner consistent with the investment objectives, guidelines, and constraints outlined in this statement and in accordance with Federal and State law. This includes discharging responsibilities with respect to the assets consistent with conventional prudence and all regulations and customs associated with financial fiduciaries. Investment Advisor shall at all times be registered in good standing as investment advisors. Investment Advisor firms will be experienced, with proven track records. Such firms might include (but not necessarily be limited to) Wachovia, SunTrust (Trusco), Bank of America, Wells Fargo, Georgia Office of Treasury and Fiscal Services, J. P. Morgan Chase and other Investment Managers used by Georgia State Retirement Systems and the Board of Regents.

Selecting Investment Advisors

The Investment Policy Committee has the authority to select and change Investment Advisors. The Committee's decisions will be based upon its perception of overall experience, measures of investment results, quality of periodic reporting and costs. The Investment Policy Committee recognizes that some of these standards are more subjective than objective; and that past performance is no guarantee of future performance.

IV. Various Pools of Assets and Their Time Horizons

MCG has responsibility for various pools of money. These pools have different time horizons and risk tolerances. Therefore, they will have distinctly different investment guidelines. This section attempts to identify the various pools and sub-pools, and their time horizons.

Endowment funds**Time Horizon**

Perpetual

Early Retirement**Time Horizon**

Maximum growth until 2023

Actuarial self-sufficiency after 2023

Operating funds Appropriations**Time Horizons**

Demand (checking account)

Seven to sixty days

Sixty days to one year

More than one year

V. Risk Tolerance

Generally, the primary objectives of all investment pools will be the long-term safety of principal, to include the inflation-adjusted purchasing power of principal. MCG's Investment Policy recognizes that acceptance of short-term losses of principal may be necessary in order to achieve long-term safety and growth of principal.

The secondary objective will be to maximize investment returns using strategies consistent with prudence and long-term safety of principal.

MCG's Investment Policy recognizes that there is no investment, which provides 100%, inflation-adjusted, safety of principal, over every time horizon.

Investment theory and historical data suggest that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (volatility of return, liquidity, principal preservation) is associated with higher returns.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the pools and sub-pools is the determination of appropriate risk tolerance. MCG should continually examine two important factors that influence risk tolerance in a particular pool:

- **Financial Ability** to absorb lower-than-expected return, to postpone receipt of planned withdrawal, to accept some loss of principal.

- **Willingness** to accept the emotional or political consequences of realizing disappointing investment results.

Endowment funds**Risk tolerance**

Due to the “forever” time horizon, these assets are as concerned with purchasing power risk (the risk that the nominal value of the assets fails to keep up with inflation) as with short-term fluctuations in return (the income with which to achieve the original purpose of the fund).

Early Retirement Plan**Risk tolerance**

In order to achieve maximum growth until 2023, MCG must be willing to accept significant changes in the market value of the assets.

If investments have under performed by 2023, MCG must have the financial ability to continue contributions to the Plan, until the Plan is deemed actuarially sound.

After 2023, or whenever the Plan is pronounced self-sufficient, preservation of an actuarially sound level of principal will be paramount.

Operating funds Appropriations**Risk tolerance**

Demand – Mandatory preservation of principal while seeking maximum current income.

Seven to sixty days – Strong emphasis on preservation of principal while seeking maximum current income.

Sixty days to one year – In order to achieve a higher level of income, these funds may be exposed to short-term price volatility and

moderate principal risk. MCG should expect that the TOTAL RETURN of such an investment (total income plus change in principal value) would be positive.

More than one year – same as above.

VI. Specific Guidelines for Pools and Sub-pools.

Endowment Fund Guidelines

- A.** MCG decided to work with Trusco in the management its Endowment.
- B.** Preamble – The main goal of the Endowment is that principal be preserved at a level that protects the historic purchasing power of the original Endowment amounts, while generating sufficient annual income to perform the original intent of the Endowment.
- C.** General Investment Guidelines
 - 1.** The investment objective shall be to emphasize long-term capital appreciation AND growth of income; and to increase the principal value at a rate at least equal to the rate of inflation, as measured by an appropriate index.
 - 2.** The overall character of the portfolio should be one of above-average quality, possessing at most, an average degree of investment risk.
 - 3.** Each year no more than 5% of the three-year average market value, measured on December 31, will be distributed to the school to support its budget, or to the designated beneficiary program. The purpose of such limitation is to help ensure long-term preservation of purchasing power.
 - 4.** For comparative purposes, the stock portion of the portfolio will be reviewed relative to the results achieved by the indexes such as the Standard & Poors 500 index, and/or other stock indexes that the marketplace has accepted as indicative of average or better-than-average performance.
 - 5.** The investment objective for the bond portion will be equal to the Lehman Government Corporate index, and/or other indexes accepted by the marketplace as indicative of average or above-average performance.
 - 6.** Because these have not been considered state funds, choice of investment vehicles is limited only by prudence.

D. Investment Advisor General Guidelines

- 1.** The Investment Advisor(s) will give regular and active attention to the Endowment to develop and implement investment strategy.
- 2.** The Investment Advisor is authorized to make investment changes; such as trades, weighting, as deemed necessary, in accordance with the objectives and guidelines set forth in this document, on a discretionary basis.
- 3.** These investment objectives shall be reviewed periodically, at least annually, to ensure their continued appropriateness.
- 4.** Since the Endowment is made of several separate accounts, it is necessary that the Investment Advisor be able to segregate the various accounts, and their earnings, in its documentary reporting to MCG.

E. Specific Investment Guidelines – The Endowment will be invested partially in stocks, partially in bonds, and a small amount in liquid, money-market type investments.

- 1.** The equity (stocks) portion shall range between 50% and 75% of the total portfolio. (This weighting toward stocks recognizes that, over long periods of time, stocks have produced better total return than bonds.) Guidelines for equity investments include the following:
 - a)** High overall quality; not speculative.
 - b)** Diversification in many different individual stocks.
 - c)** Foreign stocks are eligible investments.
 - d)** May be an individually managed basket of stocks or a fund that mirrors a stock index, or both.
- 2.** The fixed-income (bonds) portion of the portfolio is expected to range between 25% and 50% of the total portfolio. (Investing in bonds recognizes the fact that bonds produce real cash income even during times when stocks are losing market value.)
 - a)** Quality to be above average with heavy emphasis on issues rated at least “BAA” by Moody’s and/or Standard and Poors.
 - b)** Diversified as to issue and maturity.

- c) Maturities should generally be of short to intermediate length but may emphasize shorter or longer maturities depending upon yield differentials.
 - d) Bond investments may be an individually managed basket of bond securities, or bond mutual funds, or both.
3. 5% to 10% of the portfolio value may be invested in cash equivalents, in a money-market type fund, in order to facilitate stock and bond trading, and to provide liquidity for annual distributions.
4. Investments other than traditional stocks and bonds may be allowed as the investment community's definitions of prudence evolve. Board of Regent's Diversified Fund is an example of investment strategy considered prudent, but which includes investments other than traditional stocks and bonds.

EARLY RETIREMENT PLAN GUIDELINES

- A. The original ERP financial model assumed an annual investment growth rate of 7.5%, which seemed conservative in year 2000. The initial \$15,172,405 investment of ERP funds in late 2000 has experienced little growth, resulting from steep, broad declines in the stock market, particularly the S & P 500 stocks in 2001 and 2002. Because of the relatively long time horizon of that investment (until 2023), there remains time to realize a 7.5% average investment growth rate.

MCG decided to work with the State of Georgia, Division of Investment Services, State Retirement Systems, in the management of the initial portion of its ERP assets. A market value of securities of more than \$11,000,000 in May 2009 is invested in the Georgia Pooled Index Fund, managed by J.P. Morgan Chase Bank, which Fund mirrors the S & P 500.

An additional amount of approximately \$21,766,000 of contributions to ERP, in excess of benefit payments, was entrusted in April, 2005, to SunTrust/Trusco Capital in an Individual Portfolio, intended to mirror Board of Regent's new Diversified Fund. That balance was approximately \$23,700,000 in May, 2009.

It will be within Investment Policy Guidelines to employ more than one Investment Manager for MCG's ERP assets.

Wells Fargo has been chosen to manage the monthly payment of Early Retiree benefits, and uses two accounts in the disbursement process. The accounts are funded by current contributions to ERP. Because the total benefit amounts change monthly, and because the two accounts pay interest at a rate comparable to

MCG's checking account and Georgia Fund 1, amounts somewhat in excess of that necessary to fund monthly disbursements have been transferred by MCG to the two accounts, in order to ensure sufficient funds to cover checks written.

Our policy will be to keep in the Wells Fargo accounts only the approximate amount necessary to fund disbursements, and to offset account activity fees. The amount of current ERP contributions in excess of the amounts needed to fund monthly benefits will be added to ERP long-term investment pools.

B. The main goal of the ERP pool is maximum growth of principal, until 2023, at which time contributions to ERP should cease, and the Early Retirement Plan should be self-sufficient (principal plus future earnings should be sufficient to fund all remaining ERP benefits until the last beneficiary dies).

C. General Investment Guidelines

1. The investment objective until 2023 is to maximize long-term principal appreciation.
2. After 2023 the investment objective will be that the ERP fund remain actuarially self-sufficient.
3. The overall character of the portfolio should be one of above-average quality, possessing at most an average degree of investment risk.
4. For comparative purposes, the stock portion of the portfolio will be reviewed relative to the results achieved by the Standard & Poors 500 index, and/or other stock indexes which the marketplace has accepted as indicative of average or better-than-average performance.
5. The investment objective of the bond portion will be equal to the Lehman Government Corporate index, and/or other indexes accepted by the marketplace as indicative of average or better-than-average performance.
6. Overall blended performance of ERP long-term investments will be measured against Board of Regent's Diversified Fund, popular stock indexes, and ERP's original growth assumptions of 7.5%.

D. Investment Advisor General Guidelines

1. The Investment Advisor(s) will give regular and active attention to the Early Retirement Plan pool of funds, to develop, implement, and review investment strategy.
2. The Investment Advisor is authorized to make investment changes as deemed necessary, in accordance with the objectives and guidelines set

forth in this document, on a discretionary basis. Such discretionary changes would normally be in reaction to sudden changes in the investment environment, which demanded quick action in order to preserve principal.

3. These investment objectives shall be reviewed periodically, probably annually, by the Investment Policy Committee to ensure their continued appropriateness.

E. Specific Investment Guidelines – ERP funds will be invested in stocks and bonds, the selection and weighting of which shall be decided by the Investment Manager(s).

1. The equity (stocks) portion may be as high as 100%, until 2023, recognizing the need for maximum growth, and no need for income. After 2023, the equity portion shall range between 0% and 50% of the total portfolio, recognizing the necessity at that time for income over growth.
 - a) High overall quality; not speculative.
 - b) Diversification in many different individual stocks.
 - c) Foreign stocks are eligible investments.
 - d) May be an individually managed basket of stocks or a fund, which mirrors one or more stock indexes, or both.
 - e) May include some non-traditional investments; such as, those contained in the Board of Regent's Diversified Fund.
2. Until 2023, the fixed-income (bonds) portion of the portfolio is expected to be no more than 35%, recognizing need for growth over income. After 2023, the fixed-income portion may be as high as 100%, recognizing the need for predictable income over growth.
 - a) Quality to be above average with heavy emphasis on issues rated at least "BAA" by Moody's and/or Standard and Poors.
 - b) Diversified as to issue and maturity, until 2023.
 - c) After 2023 may be less diversified if that strategy achieves income sufficient for the obligations of ERP.
 - d) Bond investments may be a managed basket of bond securities, or bond mutual funds, or both.

3. It is anticipated that ERP would be fully invested until 2023, containing only enough cash and cash equivalents to facilitate necessary trading of securities. After 2023, it is anticipated that more cash equivalents would be desirable in anticipation of monthly benefit payments.

Guidelines for Investment of Operating and Appropriated Revenues

- A. MCG's operating and appropriated cash may be divided into as many as four "sub-pools", each with a potentially different Investment Manager. This money will be all considered "appropriated" and any investments must comply with State regulations governing such investments.
 1. Checking accounts and CD's must be collateralized.
 2. Investments are limited by Georgia Code section 36-83-4, which essentially describes instruments backed by the US government or agencies of the US government, obligations of the state of Georgia or other states, Repurchase Agreements, Collateralized bank CD's and Prime Bankers' Acceptances.
 3. MCG will not commingle its operating funds with funds of other entities, other than as allowed by Georgia Code, or approved by the Georgia Board of Regents, such as Georgia Fund 1, Georgia Extended Asset Pool, or Trusco Short Term Fund.
- B. The primary investment objective relative to investment of operating and appropriated funds will be the protection of principal. The secondary objective will be to earn investment income, at market rates, without inhibiting the availability of cash for MCG's regular needs. Careful cash flow planning and management of cash may maximize returns.
- C. Four sub-pools
 1. Checking account – immediate availability.
 2. 7 days to 60 days – Cash that will be idle for at least seven days can often earn higher returns if moved out of the checking account and placed into a "money market" type of investment account, with one-day availability, such as Georgia Fund 1. Money Market funds usually have an average duration of the instruments in the portfolio of around 30 days. This allows such funds to virtually guarantee fixed net asset value. Utilizing a money market account for small, incremental advantages of yield, compared to interest checking, requires a degree of cash forecasting.

3. 60 days to 1 year – Cash that will be idle for at least 60 days can often achieve investment returns higher than interest checking or “money market” by being transferred to an investment vehicle employing securities with maturities longer than those employed by “money market” funds. An example might be Trusco’s “Short Term Fund” within its Regent’s Pooled Fund Program. In order to realize the higher returns available from investment vehicles with durations of more than approximately 30 days, investors must be willing to accept some risk of declining net asset value (especially in a rising rate environment). Depending upon the size, several days notice of withdrawal may be necessary.
4. More than one year – Occasionally, MCG may have an amount of money that will not be spent for more than a year.

Even if there is never a specific appropriation or sponsored program that results in MCG having a specifically identifiable, designated amount of cash idle for a year or more, there is another circumstance that may occur. Because much of MCG’s cash is received weeks in advance of its actual expenditure, and is very predictable as to its time of receipt, careful cash management may result in identification of an amount of idle cash that appears to be almost “permanent”.

This idle cash is in no way “surplus” to the needs of the institution, but rather a byproduct of the practical reality of the system by which MCG receives various revenues and pays its bills. It is possible that some amount of apparently “permanent” idle cash can be advantageously invested for a period of twelve months, or more.

- a) Investing in a vehicle with average duration of around a year may produce higher returns compared to vehicles of shorter duration. Longer duration increases the risk of declining net asset value. An example of such an investment vehicle is the Georgia Extended Asset Pool. Funds would generally be available with a few days advance notice. Another example would be an individually managed account generally mirroring Board of Regent’s Short Term Fund. BOR’s Legal Fund may be suitable for state funds that will be idle for much more than 1 year.
- b) On rare occasions, when the exact period of time that funds are available for investment is known, it may be advantageous for MCG to purchase a security with a specific maturity. This will have the effect of locking in the investment return, and guaranteeing a fixed net asset value. Unexpected liquidation prior to maturity could result in significant risk to principal.

- D.** General Investment Guidelines – Investments shall be limited to fixed income securities, which qualify under Georgia law.
- 1.** Checking Account – MCG’s main checking account shall be housed with a financial institution experienced in handling large, collateralized accounts. Such institutions will have a physical presence in Augusta. The account will be of the type generally known as “Government Interest Checking”, which means that interest is paid on the average daily collected balance, and the account is at all times collateralized by qualifying securities.
- The interest rate may vary with market conditions, but will usually be determined by some index, such as 90 day T-Bill or FED FUNDS.
- The formula determining the exact rate paid on checking balances will generally be negotiated with the bank, as part of the overall pricing of the relationship, including specific per-item bank charges for services rendered by the bank to MCG.
- It will be MCG’s policy to consider alternatives to “interest checking”, such as “overnight sweep”, if such alternatives produce income higher than interest checking, without impairing availability, safety, or legality.
- It may be advantageous to MCG for bank fee charges to be paid by offsetting those charges against a portion of the collected balances available to earn interest. Bank statements must clearly show gross charges, and the amount of balances used to offset fee charges.
- Banks may offer their account services at no charge in return for the expectation that MCG will keep a significant balance in its checking account.
- 2.** 7 to 60 days – Depending upon the amount of money, and depending upon MCG’s cash forecasting ability, it may be advantageous to move temporarily idle funds out of the Government Interest Checking account, into an investment account that pays higher interest. The significance of “7 to 60 days” is to describe the shortest time period of various investment alternatives and to describe a time period generally associated with “money market” accounts. Under certain circumstances, it may be advantageous to utilize this type of account for a period of time less than seven days or more than sixty days.

Generally, this type of investment vehicle utilizes fixed rate securities with maturities no longer than sixty days, and has an average “duration” in its portfolio of about thirty days, or slightly more.

This type of account will have a fixed net asset value, and one-day availability of funds.

As of June, 2009, it appears that the only “money market” type of investment vehicle which meets the legal requirements of the Georgia Code is Georgia Fund 1 (formerly known as LGIP).

3. If MCG determines that an amount of cash will be idle for more than 60 days, it will usually be advantageous to invest that money in a vehicle utilizing fixed rate investments with maturities longer than sixty days.

The higher returns available in such a vehicle are accompanied by some risk of declining net asset value, in periods of sharp upward volatility in the short-term interest rate environment.

In other words, it is possible that at the time of withdrawal of MCG’s money from such an investment vehicle, a recent upward spike in market rates could cause MCG’s principal to be less than at the time of investment. However, it is highly unlikely than any decline in net asset value would be greater than the interest earned during the investment period.

Therefore, it will be MCG’s policy to measure its investment of operating funds in any “variable net asset value” vehicle, from the standpoint of TOTAL return (interest plus/minus change in net asset value) instead of interest return only.

The practical effect of this policy is that any net asset value loss realized at the time of withdrawal may be offset by MCG reversing an amount of interest previously earned by that withdrawn investment, in order to bring the effective net asset value to its original level.

Availability of MCG’s money from such investments will be no more than seven days.

Three investment vehicles that would meet MCG’s “60 day to 1 year” needs, and meet Georgia Code qualifications, are Georgia Extended Asset Pool (GEAP) Short Term Fund, one of Trusco’s Regent’s Pooled Funds Program, and collateralized CD’s.

4. More than 1 year – Generally, money available for an investment period greater than one year can earn a higher return than money available for less than one year. If MCG finds itself with money it will not need to

spend for at least twelve months, consideration should be given to an investment vehicle utilizing fixed rate securities with maturities longer than one year.

The above-mentioned GEAP and Trusco's Short Term Fund may be appropriate. Trusco's Regent's Pooled Fund program may have a Fund more appropriate than Short Term Fund, to include an individually managed fund tailored to MCG's needs. The Regent's Legal Fund may be suitable for money that will be idle for much longer than one year.

The Net Asset Value and TOTAL return considerations mentioned in #3 above will also apply here.

Mutual fund type investment vehicles will usually be appropriate for MCG's investment of Operating and Appropriated money because of low net-asset-value risk, low cost, and ease of entry and exit. However, the certainty of a twelve month time horizon may make the purchase of a specific security advantageous, as opposed to participation in a mutual fund. This will depend upon conditions in the marketplace at a particular time, the amount involved, and transaction costs associated with acquisition and safekeeping of a specific security.

The primary advantages of purchasing specific, fixed-rate securities are that: 1) net asset value at maturity is known and 2) the exact amount of interest that MCG will receive is known. (The same can be said for specific securities with maturities of less than one year. However, there is less chance that MCG would realize financial advantage compared to a mutual fund.)

- E.** Specific Investment Guidelines – Generally, money moved for short-term investment purposes will be at least \$1,000,000. Normally, it will be unproductive to try to forecast MCG revenues closer than that for purposes of short-term investing.

Since the difference between the rate paid on Government Interest Checking and "Money Market" is normally no more than 25 basis points, moving small amounts back and forth for a few days at a time may not generate enough incremental interest income to justify the staff time. In addition, keeping a very low balance in our Government Interest Checking account risks an overdrawn condition if our forecasts underestimate daily revenue or checks presented at the bank.

- 1.** Checking Account – MCG should want a "Government Interest Checking" account, or equivalent. MCG's account should be sufficiently important to any bank to warrant a "very competitive" rate if not the "best" rate. In April 2007, MCG received from SunTrust a rate, which is the average of the 91-day T-bill auction rates ("discounted" rate rather

than “investment” rate) from the prior month rounded down to the nearest basis point, plus 7.25 basis points, then 5.13%. This was attractive even when compared with Georgia Fund 1’s April yield of 5.29%, net of fee. In January, 2008, MCG negotiated a Fed Funds based rate, which was superior to the T-bill-based rate. (MCG’s Interest Checking rate would not usually be better than “money market”, but the checking rate may be close enough to the Fund 1 rate to warrant leaving cash in the checking account). In June, 2009, the Fed Funds rate was only 25 basis points, and interest-checking yielded a bank-established minimum of 40 basis points.

2. 7 to 60 days

MCG currently uses Georgia Fund 1 as its “money market” alternative. It measures itself against the S & P Rated Government Investment Pool Index, and consistently outperforms that index.

Georgia Fund 1 has a fixed net asset value, as should any future alternative to Georgia Fund 1.

3. 60 days to 1 year

Investment vehicles should have portfolio durations of between 6 and 18 months. No security within the portfolio should have a maturity of more than five years.

MCG has an individually managed account with Trusco’s Short Term Fund (called “Cash” Account), and should consider having an active account with GEAP.

At any particular moment in time, MCG may choose between these two variable rate alternatives by reviewing recent returns, present duration, and planned changes in duration.

MCG can help to manage its Net Asset Value risk by choosing the alternative that seems more likely to keep its duration shorter than the particular time horizon of the piece of money MCG seeks to invest.

MCG will measure these two alternatives against each other, and against Georgia Fund 1.

Collateralized CD’s offer a fixed rate alternative.

4. More than one year

Same guidelines as #3 above.

MCG will be receptive to information about alternative investment vehicles, especially any associated with GEAP or Trusco's Regent's Pooled Funds.

If it appeared advantageous to enjoy the predictability of purchasing a specific security, MCG may open an account with SunTrust (Trusco), GEAP, or some other well-experienced Investment Manager as the Investment Policy Committee might choose. Such purchases of specific fixed-rate securities would be limited to obligations of the US Government, or its Agencies, or securities of similar quality and legal qualification, which the Investment Policy Committee might approve.