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# **INVESTMENT POLICY STATEMENT**

**for**

**State of Rhode Island**

**Short-Term Investments**

Adopted Date: 3/6/2025

Effective Date: 3/6/2025

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# **1. PURPOSE**

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The intention of this Investment Policy Statement (“IPS”) is to outline the State Investment Commission’s (“SIC”) policies for the management of Short-Term Investments of the State of Rhode Island (“the State”). Short Term Investments are defined within this policy as cash deposit accounts held at financial institutions and short-term fixed income securities held at the State’s custodian.

The purpose of Short-Term Investments is to cover the disbursements of the State. The purpose of this IPS is to provide guidance on the oversight and management in accordance with stated Investment Objectives (see page 2).

This policy is designed to be compliant with the State’s General Laws regarding Public Finance, adaptive as needed to applicable accounting standards, statutory requirements and investment agreements while accommodating the nature of the State’s underlying obligations. See Appendix A for further information regarding State statutes related to this IPS.

## **Investment Policy Review and Evaluation**

It is not expected that the IPS will change frequently. Short-term changes in the financial markets should not require adjustments to the IPS. The IPS will be reviewed annually by the SIC to determine whether any changes are appropriate.

## **2. INVESTMENT OBJECTIVES**

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The primary investment objective of the Short-Term Investment portfolio is to maintain levels of liquidity necessary to meet the State's disbursement needs while preserving principle and achieving a competitive market yield.

Key investment tenets are:

1. Legal Conformity - compliance with State statutes regarding the investment of State funds (see Appendix A, for informational links to Public Finance statutes).
2. Safety - investments are in high quality, short maturity, fixed income securities with the intention of preserving principal.
3. Liquidity - maintenance of appropriate levels of liquidity to fund the State's disbursements.
4. Rate of Return - there is an expectation of market comparable return based on account structure and/or investment security.

### **3. RESPONSIBILITIES**

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#### **A. Responsibilities of the SIC**

The SIC, chaired by the General Treasurer, is a Rhode Island governmental commission that has oversight responsibility for the investments of the State, including Short Term Investments (see Appendix A for reference link for more information regarding the SIC). The responsibilities of the SIC related to Short Term Investments include:

1. Approving IPS and any modifications.
2. Overseeing compliance with stated IPS investment objectives, permitted investments, performance benchmarking and reporting.
3. On a monthly basis monitoring:
  - i. Overall portfolio structure
  - ii. Asset valuation reports

#### **B. Responsibilities of the Office of the General Treasurer**

1. Exercising authority to engage or replace any retained professional experts, as it deems appropriate, at any time. These include but are not limited to:
  - i. **Investment Manager(s)**. An Investment Manager has the discretion to purchase, sell, or hold specific securities to meet short term investment objectives. These securities are purchased on behalf of the State and held by the State's custodian (see Investment Manager Vendor Criteria on page 6).
  - ii. **Investment Consultant(s)** ("Consultant"). A consultant may assist the Investment Staff in establishing investment policy objectives and guidelines; reviewing Investment Managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate, and as otherwise provided through a contractual agreement between the parties.
2. Maintaining internal controls with the intention of preventing loss of funds due to fraud, error, misrepresentation, or imprudent actions.
3. Exercising responsibility for the following:
  - i. Monitoring the Short-Term Investment portfolio, managed by Investment Manager, ensuring sufficient liquidity levels to meet the State's disbursements.
  - ii. Allocating capital between investment deposit accounts and payment accounts.

### **3. RESPONSIBILITIES**

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- iii. Keeping a list of all the State accounts applicable to this Short-Term Investment IPS, (see Appendix B).
- iv. Procuring and managing the operations of the Short-Term Investment program including all service provider relationships.
- v. Preparing monthly Short-Term Investments report for the SIC, including:
  - 1. Market value of the portfolio and current yield
  - 2. Identified variances to this IPS
- vi. Recording compliance, as applicable, of all participating depository financial institutions with:
  - 1. The State's Community Reinvestment Act (see Depository Financial Institution Vendor Criteria pages 7 & 8)
  - 2. The State's collateral requirements (see Cash Deposit Account Collateral Requirements page 9)

#### ***C. Ethics and Conflicts of Interest***

All members of the SIC and the Office of the General Treasurer shall refrain from personal activity that could conflict with the proper execution and management of Short-Term Investments or impair their ability to make impartial decisions. The SIC and Office of the General Treasurer must adhere to the Code of Ethics outlined in State statues 35-10-7 and 36-14.

#### ***D. Responsibilities of Service Providers***

Investment Managers and Depository Financial Institutions with Cash Deposit Accounts are given a copy of this IPS and required to provide Investment Staff prompt notice of their failure to comply with this policy and/or any material changes to their required disclosure information. Further, service providers provide annual attestation based on the state's fiscal year end of their compliance with this IPS by November 30th of each year.

## 4. Permitted Investments

The Short-Term Investment portfolio is comprised of collateralized cash deposit accounts held at financial institutions and short-term fixed income securities. The table below provides a breakdown of permitted investments, the composition, and the maximum maturity of the category comprised of US Treasury and Agency securities. Permitted investments may exceed the maximum allowances listed below as a function of market conditions. Under those circumstances, The Office of the General Treasurer will develop a plan to determine the feasibility of reducing the allocation of any particular permitted investment category, and to monitor the portfolio for long-term adherence to the allowances.

<b>Permitted Investments</b>	<b>Portfolio Maximum Allowance*</b>	<b>Market Equivalent Benchmark</b>
<b>U.S. Treasury &amp; Agency Bills, Notes, Bonds or Repos backed by direct obligations of U.S. Gov't*</b> Short term obligations issued by U.S. Gov't and U.S. Gov't Agencies maturing in 397 days or less at time of purchase.	100%	BoA Merrill Lynch 0-1 yr U.S. Treasury Index
<b>Ocean State Investment Pool (OSIP)**</b> Advisor managed in accordance with Rule 2a-7.	60%	FTSE 3-month T-Bill Index***
<b>Cash Deposit Accounts</b> Funds on deposit with financial institutions, earning a return and fully collateralized at no less than 102% of principle in accordance with the State's requirements. See Collateralization section for more information on collateralization requirements.	75%	30-Day U.S. T-Bill
<b>Insured Cash Sweep</b>	50%	FTSE 3-month T-bill index

\*All security investments will be purchased on behalf of the State and held by a custodian selected by the State or by its sub-custodian agent, unless otherwise directed to another custodian by the Office of the General Treasurer. Securities lending by this safekeeping agent is not permitted. The custodian provides the Office of the General Treasurer with online access to the State's short term investment accounts. Further, the custodian provides the State with statements of all short-term investment transactions and asset valuations monthly.

\*\*The Ocean State Investment Pool (OSIP) is an advisor-managed cash portfolio approved through legislation. Assets in OSIP may only be invested in securities that would constitute "Eligible Securities" under and as defined in Rule 2a-7 of the Investment Company Act of 1940. Additionally, OSIP must be managed to meet the criteria for amortized cost measurement as defined by the Government Accounting Standards Board (GASB)

## **4. Permitted Investments**

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Statement Number 79. The maximum maturity of any security value in the pool will also be limited to the guidelines of Rule 2a-7 and Statement Number 79. See Appendix A for reference links to more information regarding OSIP.

\*\*\*OSIP Benchmark as of 2/28/25.



## **5. INVESTMENT MANAGER CRITERIA**

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The Office of the General Treasurer may engage Investment Manager(s) to manage the short-term fixed income securities as described in Permitted Investments section. The Office of the General Treasurer follows a prudent process when selecting Investment Manager(s). Investment Manager(s) may be terminated or replaced at the discretion of the Office of the General Treasurer, based on the criteria used to hire Manager(s) below.

Investment Manager criteria includes the following conditions or qualifications:

- Registered Financial Industry Regulatory Authority (FINRA) broker or Securities Exchange Commission (SEC) Investment Adviser
- SEC Form ADV report available for review upon request
- Fee-based Investment Adviser/Broker established for more than three (3) years
- The State's investments shall be less than 10% of the Firm's assets under management (AUM)
- Investment portfolio characteristics are consistent with the strategy for which they were hired
- Timely submission of all agreed upon reports including performance evaluation reports, net of fees, illustrating holdings and the risk/return profile of their investment portfolio
- Promptly report any material changes in firm information provided at the time of selection (including reporting of any material litigation and fraud, key clients, costs, and support personnel)
- Competitive fees compared to similar investment options
- Performance evaluated in comparison with appropriate market index/and or peer group
- Annual written attestation that the Investment Manager reviewed the IPS

## **6. CASH DEPOSIT ACCOUNTS: VENDOR CRITERIA**

All depository financial institutions of the State are selected by the Office of the General Treasurer. The Office of the General Treasurer reserves the right, at its sole discretion, to withdraw its approval of any depository institution at any time, without notice.

### **A. Vendor Criteria**

The following information is required from all existing depository financial institutions of the State on an annual basis:

- Audited financial report
- Published credit ratings by S&P Global and Moody's Ratings
- Community Reinvestment Act rating
- Attestation of compliance with this IPS

Depository financial institutions meeting or exceeding the following criteria are eligible for consideration by the Office of the General Treasurer.

### **B. Banks and Credit Unions**

The depository financial institution must be covered by federal deposit insurance from either the Federal Deposit Insurance Corporation (FDIC) or thrifts' National Credit Union Administration (NCUA).

The depository financial institution must attest annually they meet or exceed the following:

- Three years of operating history
- An investment grade short-term rating from a nationally recognized statistical rating organization (NRSRO), or a minimum grade of Satisfactory from a bank rating service, e.g. Veribanc
- Positive return on assets in four of the last six quarters, as measured by data at the close of each quarter
- Federal Reserve risk-based capital ratio of at least 8%
- Non-performing assets as a percentage of total assets less than 3%.

Any depository financial institution that does not meet these minimum criteria may be approved by exception only through a unanimous vote by the SIC.

## **6. CASH DEPOSIT ACCOUNTS: VENDOR CRITERIA**

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### **C. Preference for Banks with Outstanding Community Reinvestment Act Ratings**

Preference will be given to depository financial institutions with an “outstanding” rating in accordance with the State’s Linked Deposit Policy, set forth in Rhode Island General Laws Section 35-4-4.1 through 35-4-4.7, aimed to increase the availability of capital and banking services in low-and moderate-income neighborhoods in Rhode Island (see Appendix A, Linked Deposits for informational links related to this statute).

### **D. Preference for Participants in the Community Deposit Program**

The SIC permits up to \$50 million of the State’s cash balances to be invested in depository financial institutions that put this capital to work supporting Rhode Island based community investment through the Community Deposit Investment Program.

To qualify for Community Deposit Program preference, depository financial institutions must attest to meeting the requirements set forth in this IPS, as a Permitted Cash Deposit Account.

See Appendix A under Community Deposit Program for a link for more information regarding this program.

## **7. CASH DEPOSIT ACCOUNTS: COLLATERAL REQUIREMENTS**

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Funds held in Cash Deposit Accounts are to be collateralized in accordance with Chapter 10.1 of Title 35 of the General Laws entitled “Collateralization of Public Deposits”. All deposits held at depository financial institutions on behalf of the State must be fully collateralized at no less than 102% of principal (SIC requirement) unless the amount is covered by federal deposit insurance (either banks’ Federal Deposit Insurance Corporation [FDIC] or thrifts’ National Credit Union Administration [NCUA]).

### **A. Exceptions to Collateral Requirements**

Exceptions to collateral requirements are:

- Investment securities held with the State’s safekeeping custodian or sub-custodian agent.
- OSIP holdings
- Amounts covered by federal deposit insurance (FDIC or NCUA) including Insured Cash Sweep Accounts (ICS).

### **B. Types of Permitted Collateral**

Acceptable types of collateral are:

- U.S. Government Treasuries
- U.S. Government Agencies
  - Federal Home Loan Bank
  - Federal Farm Credit Banks
  - Government National Mortgage Association
  - Federal Home Loan Mortgage Corporation
  - Federal National Mortgage Association

### **C. Collateral Custody Requirements**

Collateral may be held, evidenced by written agreement, in order of the State’s preference:

1. Independent third-party institution, in the State’s name
2. Federal Reserve Bank account in the State’s name
3. Separate account at the financial institution, held for the benefit of State

## **7. CASH DEPOSIT ACCOUNTS: COLLATERAL REQUIREMENTS**

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### ***D. Collateral Valuation***

Collateral is marked to market on a weekly basis by custodian. The Office of the General Treasurer reviews the quarterly report provided by the depository financial institution certifying compliance with this requirement. The report includes a detailed listing of the amount and type of collateral.

### ***E. Collateral Alternative***

The State may accept a letter of credit for the benefit of the State from one of the Federal Home Loan Banks, as an alternative to collateral. The letter(s) of credit must represent 100% of the value of the State's depository account. Such letter(s) of credit are maintained by the Office of the General Treasurer.

## **APPENDIX A: APPLICABLE STATUTE & INFORMATION REFERENCE**

This IPS is intended to be compliant with the State’s General Laws regarding Public Finance. The following provides some informational reference links to materials relevant to the State’s Short Term Investment Program:

- **Public Finance, General Laws, Section 35:**
  - [webserver.rilegislature.gov//Statutes/TITLE35/INDEX.HTM](http://webserver.rilegislature.gov//Statutes/TITLE35/INDEX.HTM)
- **State Investment Commission (SIC), Section 35, Public Finance, Chapter 10:**
  - [webserver.rilegislature.gov//Statutes/TITLE35/35-10/INDEX.htm](http://webserver.rilegislature.gov//Statutes/TITLE35/35-10/INDEX.htm)
  - [webserver.rilegislature.gov//Statutes/TITLE35/35-10/35-10-7.htm](http://webserver.rilegislature.gov//Statutes/TITLE35/35-10/35-10-7.htm)
- **Public Officers and Employees, Code of Ethics, Section 36:**
  - [webserver.rilegislature.gov//Statutes/TITLE36/36-14/36-14-1.htm](http://webserver.rilegislature.gov//Statutes/TITLE36/36-14/36-14-1.htm)
- **Ocean State Investment Pool (OSIP), established by the General Assembly, General Laws, additional informational links:**
  - [webserver.rilegislature.gov//Statutes/TITLE35/35-10.2/INDEX.htm](http://webserver.rilegislature.gov//Statutes/TITLE35/35-10.2/INDEX.htm)
  - [Ocean State Investment Pool | Rhode Island Office of the General Treasurer \(ri.gov\)](http://ri.gov)
  - [Ocean State Investment Pool | Fidelity Resource Center: https://osip.fidelity.com/](https://osip.fidelity.com/)
  - [Ocean State Investment Pool | 2024 Investment Circular: https://osip.fidelity.com/app/literature/view?itemCode=936458&renditionType=PDF](https://osip.fidelity.com/app/literature/view?itemCode=936458&renditionType=PDF)
- **Linked Deposit Policy - Community Reinvestment Act, Section 35, Public Finance, Chapters 4 - 4.6:**
  - [webserver.rilegislature.gov/Statutes/TITLE35/35-4/35-4-4.1.htm](http://webserver.rilegislature.gov/Statutes/TITLE35/35-4/35-4-4.1.htm)
  - [webserver.rilegislature.gov/Statutes/TITLE35/35-4/35-4-4.2.htm](http://webserver.rilegislature.gov/Statutes/TITLE35/35-4/35-4-4.2.htm)
  - [webserver.rilegislature.gov/Statutes/TITLE35/35-4/35-4-4.3.htm](http://webserver.rilegislature.gov/Statutes/TITLE35/35-4/35-4-4.3.htm)
  - [webserver.rilegislature.gov/Statutes/TITLE35/35-4/35-4-4.4.htm](http://webserver.rilegislature.gov/Statutes/TITLE35/35-4/35-4-4.4.htm)
  - [webserver.rilegislature.gov/Statutes/TITLE35/35-4/35-4-4.5.htm](http://webserver.rilegislature.gov/Statutes/TITLE35/35-4/35-4-4.5.htm)
  - [webserver.rilegislature.gov/Statutes/TITLE35/35-4/35-4-4.6.htm](http://webserver.rilegislature.gov/Statutes/TITLE35/35-4/35-4-4.6.htm)
- **Community Deposit Program:**

## **APPENDIX A: APPLICABLE STATUTE & INFORMATION REFERENCE**

- [BankLOCAL | Rhode Island Office of the General Treasurer \(ri.gov\)](#)
- [Community Deposit Program Policy | Rhode Island Office of the General Treasurer \(ri.gov\)](#)
- **Collateralization of Public Deposits, Section 35 Public Finance, Chapter 10.1:**
  - [webserver.rilegislature.gov/Statutes/TITLE35/35-10.1/INDEX.htm](http://webserver.rilegislature.gov/Statutes/TITLE35/35-10.1/INDEX.htm)

## **APPENDIX B: LIST OF APPLICABLE SERVICE PROVIDERS**

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A list of applicable Service Providers (effective as of January 31, 2025) can be found in the Short-Term Investments section (p.57) of the January 31, 2025 State Investment Commission Book: <https://data.treasury.ri.gov/dataset/334f1487-e917-4ec6-bda5-6ed7037f675c/resource/2073984f-53da-4403-b2a5-9fe0341354fb/download/ersri-sic-book-1.31.25.pdf>

Additional State Investment Commission Books can be found at:  
<https://treasury.ri.gov/investments/open-meetings-reports/state-investment-commission-monthly-reports>



## **APPENDIX C: PERMITTED INVESTMENTS**

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The State may only invest funds in the following instruments in accordance with this policy:

- (i) U.S. Treasury Bills, short-term obligations issued by the United States Government with maturities of one year or less.
- (ii) Near-Maturity U.S. Treasury Notes or Bonds, obligations issued by the United States Government with a remaining maturity of 397 days or less.
- (iii) U.S. Agency Obligations, short-term obligations of U.S. Government Agencies or Instrumentalities with maturities of 397 days or less. However, investments in U.S. Agency obligations that have been securitized in a collateralized mortgage trust are prohibited.
- (iv) Repurchase Agreements (Repo), a contractual obligation between the State and a seller. In a Repo, the seller receives cash and delivers U.S. Treasury or U.S. Agency securities with maturities of no longer than 3 years as collateral, which is custodied at a third party. The collateral value is to be marked to market weekly. The Repo seller agrees to repurchase the securities at predetermined dates and rates. Repos may only be purchased from financial institutions or broker/dealers who have signed a master repurchase agreement acceptable to the Office of the General Treasurer. The approved form of Master Repurchase Agreement is the current form used by Bond Market Association (formerly the Public Securities Association). Reverse Repurchase Agreements are prohibited.
- (v) Ocean State Investment Pool (OSIP), an advisor-managed cash portfolio approved through legislation in June of 2011. Assets in OSIP may only be invested in securities that would constitute “Eligible Securities” under and as defined in Rule 2a-7 of the Investment Company Act of 1940. Additionally, OSIP must be managed to meet the criteria for amortized cost measurement as defined by the Government Accounting Standards Board (GASB) Statement Number 79. The maximum maturity of any security value in the pool will also be limited to the guidelines of Rule 2a-7 and Statement Number 79.
- (vi) Cash Deposit Accounts
  - Collateralized Deposit Accounts, State funds can be invested into deposit accounts with agreed rates of return and guaranteed availability of funds. Funds on deposit within the account are collateralized in accordance with the requirements noted above and are adjusted daily as needed.
  - Overnight Sweep Account, an interest-earning account into which funds may be automatically transferred. The State’s excess funds in one bank account may be automatically swept into an interest- earning account with the same

## **APPENDIX C: PERMITTED INVESTMENTS**

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bank and invested overnight, as long as funds on deposit are collateralized in accordance with the requirements noted above for Collateralized Deposit Accounts and are adjusted daily as needed.

- Certificates of Deposit (CDs), obligations issued by financial institutions for specific maturities at a stated rate of interest. Maturities of CDs must be 397 days or less.
  - IntraFi Network Deposits, fka Certificate of Deposit Account Registry Service (CDARS), investments distributed by a promontory network into CDs at various financial institutions in amounts that qualify for federal deposit insurance coverage, earning an agreed-upon interest rate. The CDs offered under this program are fixed-term deposits, of which the maximum maturity will be limited to 397 days.
- (vii) Insured Cash Sweep Municipal Checking Money Market Account (ICS), investments distributed by a promontory network to multiple banks to qualify for federal deposit insurance, in return for an agreed-upon interest rate. The bank or dealer is responsible for distributing funds and ensuring compliance with current federal deposit insurance coverage guidelines, and must provide evidence of coverage on a monthly basis. These investments do not require collateralization as they are fully covered by federal deposit insurance.