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OKLAHOMA STATE TREASURER

OK INVEST
Information Statement
July 2011

Overview

The Office of the State Treasurer's (OST's) responsibilities include receiving and collateralizing the deposit of State funds, investing State funds in compliance with statutory requirements, and maintaining adequate liquidity to meet the cash flow needs of the State. The State Treasurer's Investment Policy establishes safety, liquidity and return on investment, as the main objectives for investing funds in the State Treasurer's investment portfolio (*OK INVEST*). Only those agencies and funds (participants) that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report and who have funds deposited with the State Treasurer may participate in *OK INVEST*, thus providing a greater degree of predictability over cash flow requirements.

There are no minimum and no maximum balance requirements and no transaction size limits for daily operating liquidity. As noted above, collateral and investment compliance issues are addressed by OST, except for the investment of bond proceeds. Bond covenants may restrict the investment of bond proceeds and may preclude *OK INVEST* as a permitted investment option. Participants should discuss arbitrage rebate, yield restriction and other applicable bond provisions with their bond counsel and representatives of OST prior to depositing bond proceeds in *OK INVEST*.

The aggregation of State funds in *OK INVEST* managed by OST yields benefits to the participants that come from the economies of scale which produce a competitive yield with minimal fees deducted for administration or management.

Management

Oklahoma Statutes and the State Treasurer's Investment Policy establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day-to-day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State's daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments. The State Treasurer, at his discretion, may further limit or restrict such investments on a day-to-day

basis The State Treasurer has determined that current holdings in *OK Invest* will include obligations of the United States Government, its agencies and instrumentalities; including agency senior debt and mortgage-backed pass-through securities, tri-party repurchase agreements, money market mutual funds, collateralized Certificates of Deposit, Commercial Paper, obligations of state and local governments and State of Israel Bonds. Various other investments, as allowed by law, may be added to the *OK Invest* portfolio, as the State Treasurer determines without formal revision to this policy statement.

OK INVEST includes investments in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. Accordingly, *OK INVEST* maintains a variable net asset value that may fluctuate with changes in the market. By investing up to 30% of *OK INVEST* in overnight maturities, investing in the highest rated securities, and adhering to a buy and hold strategy with respect to securities, *OK INVEST* processes redemptions, excluding restricted redemptions as noted below, at a "stable value," regardless of *OK INVEST's* current market value. *OK INVEST* maintains an overall weighted average maturity of no more than four years.

Restricted Redemptions

As previously noted, maintaining adequate liquidity to meet normal cash flow requirements is an important responsibility of this office. Accordingly, there are no minimum or maximum redemption restrictions except on **redemptions of $50,000,000 or more for non-operating, reinvestment purposes**. Likewise, if redemptions for non-operating, reinvestment purposes from the same account within a consecutive five business day period total $50,000,000 or more, subsequent redemptions may similarly be restricted. The State Treasurer reserves the right to restrict a non-operating, reinvestment redemption to the extent that it would have a substantial adverse affect on the overall liquidity of *OK INVEST* and possibly forcing the premature sale of a security at a loss.

Generally, all redemptions will be for cash. However, the State Treasurer reserves the right to delay a restricted redemption for up to two business days or to pay part or all of a restricted redemption with readily marketable securities instead of cash. If payment is made in securities, the State Treasurer will value the securities selected in the same manner in which it computes and maintains *OK INVEST* net asset value on a day-to-day basis, using amortized historical cost. This process minimizes the effect of large redemptions on *OK INVEST* and its remaining participants.

Risk

The State Treasurer recognizes that any portfolio of investments is subject to risk. Participants maintain an interest in the underlying investments in *OK INVEST* and accordingly may be exposed to certain risks. The main risks of investing in *OK INVEST* are interest rate risk, credit/default risk, liquidity risk, and U.S. Government securities risk. Interest rate risk is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. Credit/default risk is the

risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. Liquidity risk is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. U.S. Government securities risk is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State of Oklahoma, the Federal Deposit Insurance Corporation or any other government agency.

Excluded Investments

Certain investments held by OST are not included in *OK INVEST*. Yield restricted investments related to the State's Linked Deposit Programs and certain State Bond issues, the purchase of which was mandated by the State Legislature, are currently not included in *OK INVEST*. Certain securities which are purchased at the direction and on behalf of State agencies with the applicable investment authority are held specifically as investments for those agencies.

Securities Lending

OST utilizes a securities lending agent to loan obligations of the U.S. Government, its agencies and instrumentalities included in *OK INVEST* to approved third party borrowers and to obtain and maintain collateral equal to at least one hundred percent (100%) of the market value of the securities loaned. Pursuant to State statute, the net income from securities lending is deposited into the Securities Lending and Custodial Fee Revolving Fund. Securities lending income in excess of amounts necessary to pay custodial or other banking fees, is deposited into the General Revenue Fund. Any losses associated with securities lending would be attributed to the General Revenue Fund.

Interest Allocation

Interest is posted to each account on a monthly basis, generally by or before the fifth business day of the following month. A monthly earnings rate is determined based on the total *OK INVEST* earnings from the previous month as determined using the accrual basis of accounting and interest is calculated based on each account's average daily balance. The following is an example of the interest calculation:

Average daily balance * Earnings rate * number of days in month / 365

$2,608,048.21 * .92% * 31/365 = $2,037.85

Account Reporting

The State Treasurer's Investment Policy outlines requirements for *OK INVEST* investment transaction and performance reporting. The monthly and annual investment performance reports can be viewed on the OST website at http://www.ok.gov/treasurer. Additionally, *OK INVEST* participants receive the following account reporting:

Monthly

OST provides monthly statements of account that reflect each day's beginning and ending balances. The monthly statement does not provide transactional data. The earnings rate, interest earned and credited, and the minimum, maximum and average daily account balances for the month are also shown on the statement. Statements are prepared and posted on OST's website by the fifth business day of each month and should be maintained by participants as a permanent record. Participants are strongly encouraged to review their statements immediately and to reconcile their account balances on a timely basis.

Year End

Annually, subsequent to the State's fiscal year end, participants with an interest in *OK INVEST* will receive a report that reflects their proportionate share of the *OK INVEST*, including their proportionate share of the cost basis and market value of the underlying investments in *OK INVEST* on June 30th.

Notification of Changes

OK INVEST participants will be notified of changes in the State Treasurer's Investment Policy or of changes in this Information Statement. OST may post such changes to its website, email participants regarding such postings or send notice with monthly statements.