

## SECURITIES LENDING COLLATERAL INVESTMENT GUIDELINES

### I. INVESTMENT SUMMARY AND PORTFOLIO STRUCTURE

#### A. Safety of Principal

1. All credit restrictions and rating requirements pertain to the time of purchase.
2. If an investment undergoes a credit rating downgrade to a level below the allowable rating at time of purchase, the Agent shall notify Lender immediately of such a downgrade and propose a recommended course of action. Lender shall provide written instructions to the Agent, as to the required course of action.
3. All investments made in the Lender's collateral portfolio shall be segregated from the investments made on behalf of other clients of Agent, unless otherwise instructed and agreed to by the Lender.

#### B. Liquidity

1. Assets should be held until maturity and after effecting admissions and withdrawals, not less than ten percent (10%) of the total collateral portfolio shall be composed of cash and cash equivalent investments (including money market funds) which will mature on the next business day.
2. The weighted average maturity of the collateral portfolio should not exceed 90 days.
3. All investments in the collateral portfolio shall mature or are to be redeemed within thirteen months, with the exception of certificates of deposit which shall be limited to a term of one year or less. For floating rate notes, the ultimate maturity date shall be used for determining compliance with this requirement, and not the next interest reset date.

### II. INVESTMENT DIVERSIFICATION AND RATINGS REQUIREMENTS

For purposes of this section, exposure to an issuer is defined to include the issuer itself, the issuer's parent company, the issuer's subsidiaries, and any affiliated companies.

For purposes of these guidelines, the lowest prevailing rating of Moody's, S&P or Fitch shall be used in determining applicable issuer limits. If the issuer has a split rating the lowest rating shall determine which limit category to use; as long as the issuer is rated by at least one agency, that "lowest" rating does not default to no rating.

For purposes of calculating an overall issuer limit, excluding any investments in U.S. Treasuries, U.S. Agencies guaranteed by the full faith and credit of the U.S. Government or repurchase agreements, exposure to any one issuer in the collateral portfolio rated AA- (or the equivalent) or higher cannot exceed more than 4% of the collateral portfolio at time of purchase. Exposure to any one issuer in the collateral portfolio rated A- (or the equivalent) or higher cannot exceed more than 2.5% of the collateral portfolio at time of purchase.

For U.S. Treasuries and for Government Agency obligations that are guaranteed by the full faith and credit of the U.S. Government, there are no limits by issuer.

For Repurchase Agreements (Section IV. D), the exposure to any one counterparty is limited to twenty percent (20%) of the collateral portfolio.

For Money Market Funds (Section IV. E), the total amount of shares or units purchased or acquired of any money market fund shall not exceed five percent (5%) of the shares or units outstanding of said money market fund.

The total amount directly invested in the fixed income obligations of any one issuer and affiliated entities (excluding the U.S. Government) shall not exceed five percent (5%) of the securities lending collateral portfolio.

### **III. PROHIBITED INVESTMENTS**

A. The collateral portfolio is not permitted to invest in the following:

1. Collateralized notes and mortgages
2. Securities issued pursuant to Section 4(2), Regulation D, Regulation S or Rule 144A under the securities Act of 1933, as amended which exceed \$1 billion in the aggregate.
3. Liabilities of the securities lending agent or any of its affiliates unless specifically authorized in writing by the Division of Investment.
4. Any other security not explicitly approved as a permissible investment as permitted in Section IV.

### **IV. PERMISSIBLE INVESTMENTS**

Permissible investments will consist of fixed income securities and money market securities denominated in U.S. dollars as defined by the parameters of these guidelines and by applicable sections of the State Investment Council ("SIC") regulations, N.J.A.C. 17:16.

## **V. COMPLIANCE**

Compliance shall be determined on a trade date basis. It is recognized that changes in collateral portfolio balances may result, temporarily, in situations where percentage limitations are exceeded. There will be a one-business day grace period on these situations that result from changes in these balances for open, or overnight, investments. Term investments may be carried to maturity, with no additions.