TITLE: The Petroleum Underground Storage Tank Release Compensation Board Investment Policy

AUTHORITY: ORC §3737.91, Petroleum Underground Storage Tank Financial Assurance Fund
ORC §3737.945, Investments
ORC §135, Uniform Depository Act

PURPOSE

The purpose of the Petroleum Underground Storage Tank Release Compensation Board (Board) investment policy is to provide guidelines for the investment of monies within the Financial Assurance Fund (Fund). These policies have been adopted by, and can be changed only through an affirmative vote of the Board.

It is the policy of the Board to invest and prudently manage public funds in a manner that will provide a competitive investment return and meet ongoing cash flow needs. All investments of the Board shall comply with Ohio Revised Code (O.R.C.) §3737.91, O.R.C. §3737.945, the Uniform Depository Act (O.R.C. §135), and any Bond Trust Agreements entered into by the Board.

All participants in the Board's investment process shall act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of prudence and professionalism that is worthy of the public trust.

INVESTMENT OBJECTIVES

The investment objectives of the Board, in order of priority are:

1. Legality: Conformance with federal, state and other legal requirements.

2. Safety of principal: Investments shall be undertaken in a manner that seeks to ensure the preservation of capital and protection of investment principal. This primary objective is to mitigate credit risk and interest rate risk.

    a. Credit Risk - The Board will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

        - Limiting investments to the types of securities listed in this investment policy.
        - Diversifying the investment portfolio so that the impact of potential losses from over-concentration of funds in a specific maturity, issuer, industry, geographical area, or class of securities will be minimized.

    b. Interest Rate Risk - The Board will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates, by:

        - Investing in securities that mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
        - Investing operating funds primarily in shorter-term securities.

3. Liquidity: Investments shall be sufficiently liquid to enable the Board to meet its anticipated operating requirements and shall take into consideration the annual funding and expenditure cycle of the Fund.

4. Yield: The Portfolio shall be managed in such a fashion as to earn the highest possible rate of return corresponding to acceptable levels of risk, ensuring preservation of capital and taking into account the constraints of reinvestment risk and liquidity needs.

   The exception to this objective is the linked deposit program. Authorized under O.R.C. §3737.95, the linked deposit program permits the investment of funds by the Board at a reduced rate of return at financial institutions providing reduced rate loans to qualified UST owners for the exclusive purpose of replacement or upgrading of USTs.

5. Minimization of Cost: All attempts shall be made to minimize the cost of financial transactions related to implementing investment strategies.

STANDARDS OF CARE

A. Prudence: The standard of prudence to be used shall be the "Prudent Investor Rule" standard and shall be applied in the context of managing funds under the purview of the Board.

   "Investments shall be made with judgment and care, under circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

   The Board recognizes that there exist circumstances beyond the control of the most prudent investor that will impact the returns obtained. Board members and investment staff acting in accordance with this policy or any other written procedures and who exercise the proper due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that these deviations are reported in a timely fashion to the Board and appropriate action is taken to control and prevent any further adverse developments.

B. Ethics and Conflict of Interest: Board members**,** staff and other persons involved in the investment process shall act responsibly as custodians of the public trust, and avoid any transactions that might impair public confidence in the Board. All persons involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Further, no employee involved in the investment process shall use the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that would create an improper influence upon the public official or employee with respect to that person's duties.

   Employees and investment officials shall comply fully with the reporting and disclosure requirements of O.R.C. Chapter 102 and any ethics policy of the State of Ohio or the Board.

C. Delegation of Authority: The Board is responsible for the prudent investment of its funds. The Board may designate staff or enter into agreements with outside agents pursuant to O.R.C. §3737.90 (B)(4) and O.R.C. §3737.94 (F) to carry out the investment program and establish investment procedures consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions.

SAFEKEEPING, CUSTODY, AND COLLATERALIZATION

All Investment securities purchased by the Board shall be held in the name of the Ohio Petroleum Underground Storage Tank Release Compensation Board, State of Ohio and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs.-payment basis ("DVP") to ensure securities are deposited at an eligible institution as defined in O.R.C. §135.03 prior to the release of funds. The custodial bank shall issue a safekeeping receipt to the Board and the Treasurer of State

listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the designated custodial bank will also provide reports to the board and the Treasurer of State (Statutory Custodian) listing all securities held on behalf of the Board, the book value of holdings and the market value as of month-end.

All securities held as collateral for deposits shall be held in third-party safekeeping at the Federal Reserve Bank of Boston or at a secured and insured depository as required by O.R.C. §113.05. Funds on deposit must be secured by some form of collateral and witnessed by a written agreement.

To the extent a custodial bank is required, the board shall request the Treasurer of State to designate a custodial bank and enter into a custodial agreement with such bank.

Appropriate Treasurer of State officials and representatives of the financial institution responsible for, or in any manner involved with, the safekeeping and custody process of the State shall be bonded in such a fashion as to protect the State and the Board from losses from malfeasance and misfeasance.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Board or its designee may:

1. Enlist the services of the Treasurer of State's investment department to aide in the selection of securities permitted under this investment policy and direct the Treasurer of State's investment department to purchase selected securities for investment; or

2. Retain the services of an investment advisor, provided the advisor is licensed by the Ohio Division of Securities or is registered with the Securities and Exchange Commission, and possesses experience in public funds investment management, specifically in the area of state and local government investment portfolios.

All entities conducting investment business with the Board shall sign a copy of this investment policy, thereby acknowledging their agreement to abide with the contents of this policy.

INTERNAL CONTROLS

The Board or its designee shall establish and be responsible for monitoring a system of internal controls governing investments. These controls shall be designed to prevent and control losses of funds of the Board arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by any personnel. The internal controls should address: control of collusion, separation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, and clear delegation of authority.

As part of the annual audit, the Board shall have the investment program reviewed by the Auditor of the State of Ohio or his/her designee. This audit will be designed to establish asset and liability valuations and measure compliance with the investment policies and procedures.

AUTHORIZED INVESTMENTS

A. Unrestricted investments in the Fund are held by the Treasurer of State, subject to the investment policies of the Treasurer of State and the State Board of Deposit, and governed by the Uniform Depository Act. Pursuant to O.R.C. §3737.945, the Board is authorized to invest funds in excess of current needs in the following instruments:

1. Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for payment of principal and interest thereon but does not include stripped principal or interest obligations of such obligations;

2. Bonds, notes, debentures, or any other obligations or securities directly issued by a Federal government agency or instrumentally;

3. Certificates of deposit of any national bank located in Ohio and certain other banks incorporated in Ohio and subject to inspection by the Superintendent of Institutions;

4. Bonds and other obligations of the State of Ohio or any political subdivision thereof;

5. No-load money market mutual funds consisting exclusively of obligations described in #1 and #2 above or repurchase agreements secured by such obligations;

6. The State Treasury Asset Reserve of Ohio ("STAR Ohio") investment pool.

B. Proceeds of revenue bonds may be deposited into a separate account of the Fund. O.R.C. Chapters 131., Revenues and Funds, and 135., Uniform Depository Act, do not apply to the establishment, deposit, investment, application, and safeguard of any such account. Restricted investments for the repayment of revenue bond principal and interest is held in the custody of the Trustee and is subject to the conditions and limitations of any Bond Trust Agreements entered into by the Board.

D. Maturity

1. No investment shall have a maturity date of more than five years from the date of purchase by the Board, unless the obligation is matched to a specific obligation or debt of the Board.

2. No investment shall be made that will cause the average duration of the portfolio to exceed three years.

REPORTING

The Executive Director shall submit investment reports to the Board no less than annually. The annual audited financial statements shall include all investment information in compliance with all Government Accounting Standards Board rules.

INVESTMENT EDUCATION

With the Executive Director's approval, investment staff may participate in investment education or training programs sponsored by the State Chief Financial Officer, State Auditor, or other duly accredited outside investment advisor. All related fees and charges shall be paid by the Board.

CONFLICT OF LAW

In the event any portion of this policy is in conflict with State or federal law, that law will prevail.

INVESTMENT POLICY ADOPTION

This investment policy shall be adopted by the Board. The Finance Committee will annually review the investment policy and recommend to the Board improvements or enhancements to the policy. Any modifications to the investment policy shall be incorporated upon approval of the Board.