

WEST VIRGINIA
SECRETARY OF STATE
KEN HECHLER
ADMINISTRATIVE LAW DIVISION

Form #4

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OFFICE OF WEST VIRGINIA
SECRETARY OF STATE

NOTICE OF RULE MODIFICATION OF A PROPOSED RULE

AGENCY: WV State Board of Investments TITLE NUMBER: 113

CITE AUTHORITY WV Code 12-6-5 et seq.

AMENDMENT TO AN EXISTING RULE: YES NO

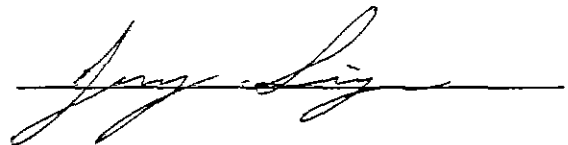
IF YES, SERIES NUMBER OF RULE BEING AMENDED: 2

TITLE OF RULE BEING AMENDED: Rules for the Administration
of the Consolidated Pension Fund

IF NO, SERIES NUMBER OF NEW RULE BEING PROPOSED: _____

TITLE OF RULE BEING PROPOSED: _____

THE ABOVE PROPOSED LEGISLATIVE RULE, FOLLOWING REVIEW BY THE LEGISLATIVE RULE MAKING REVIEW COMMITTEE IS HEREBY MODIFIED AS A RESULT OF REVIEW AND COMMENT BY THE LEGISLATIVE RULE-MAKING REVIEW COMMITTEE. THE ATTACHED MODIFICATIONS ARE FILED WITH THE SECRETARY OF STATE.



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WEST VIRGINIA ADMINISTRATIVE REGULATIONS
West Virginia State Board of Investments

Chapter 12-6
Series II
~~(1990)~~(1994)

Subject: Rules for the Administration of the Consolidated Pension Fund by the West Virginia State Board of Investments.

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FILED

WEST VIRGINIA ADMINISTRATIVE REGULATIONS 43 PM '94
West Virginia State Board of Investments

Chapter 12-6
Series II
(1990)(1994)

OFFICE OF WEST VIRGINIA
SECRETARY OF STATE

Subject: Rules for the Administration of the Consolidated Pension Fund by the West Virginia State Board of Investments.

Section 1. General

1.01. Scope - These rules implement the provisions of West Virginia Code §12-6-1 et. seq. relating to the investment of fixed income assets by the Consolidated Pension Fund established by §12-6-8(b).

1.02. Authority - West Virginia Code §12-6-5; §12-6-8.

1.03. Purpose - The general purpose of these rules is to aid in the implementation of the legislative findings and purpose set forth in West Virginia Code §12-1-1, wherein the Board is authorized to develop and maintain modern systems, consistent with sound financial practices, for the collection, disbursement, management and investment of public moneys. These rules and regulations implement such legislative intent by prescribing procedures governing participation in, and administration of, the Consolidated Pension Fund to be administered by the Board, for the purpose of enabling the participating Pension Funds to maximize the return on their investments.

1.04. Filing Date -

1.05. Effective Date -

1.06. Repeal of Former Rule - This legislative rule repeals and replaces WV 113 CSR2 "Rules for the Administration of the Consolidated Pension Fund by the West Virginia State Board of Investments" filed ~~April 13, 1990~~ May 17, 1991 and effective ~~April 13, 1990~~ May 17, 1991.

Section 2. Definitions

For purposes of these rules, unless a different meaning clearly appears from the context;

"Board" means the West Virginia State Board of Investments;

"Code" means the West Virginia Code of 1931, as amended;

"Consolidated Pension Fund" means the investment fund managed by the Board and established pursuant to West Virginia Code §12-5-8(a);

"Participant" means all Pension Funds, entities or individuals contributing moneys or assets to the Consolidated Pension Fund;

"Pension Funds" means and includes the Workers' Compensation Fund; the Workers' Compensation Fund II; the Pneumoconiosis Fund; the State Teachers' Retirement System Fund; the Death, Disability and Retirement Fund for members of the Department of Public Safety's Division of Public Safety; the Public Employees' Retirement System Funds; the Judges' Retirement Fund; the Municipal Police Officers' Pension and Relief Funds; the Fire Fighters' Pension and Relief Funds and such other retirement or pension funds and systems established

on behalf of public employees of the State or of its political subdivisions and administered by the State;

"Securities" shall have the same meaning set forth in West Virginia Code §12-6-2;

"Select U. S. Government Agency Obligation" means any evidence of indebtedness issued by any of the following: the Government National Mortgage Association (GNMA), Resolution Trust Corporation Securities (RTC);

"U. S. Government Agency Obligation" means and includes any obligation of any United States government agency guaranteed as to the payment of both principal and interest, directly or indirectly, by the United States of America, including but not limited to the following: the Government National Mortgage Association (GNMA); the Federal Farm Credit Bank (FFCB); Federal Land Banks (FLB); the Federal Home Loan Mortgage Corporation (FHLMC); the Federal National Mortgage Association (FNMA); Federal Home Loan Banks (FHLB); Federal Intermediate Credit Banks; Banks For Cooperatives; Tennessee Valley Authority (TVA); United States Postal Service; Farmers Home Administration (FHA); Export-Import Bank; Federal Financing Bank; Student Loan Marketing Association (SLMA); Resolution Trust Corporation Securities (RTC); and Veterans Administration (VA); and

"U. S. Government Obligations" means any direct obligation of, or obligation guaranteed as to payment of both principal and interest by, the United States of America.

Section 3. Mechanics of Participation in the Consolidated Pension Fund

Pension Funds may participate in the Consolidated Pension Fund by making written or electronic requests to the Board of Investments. ~~Written~~ Requests for deposits or withdrawals shall state the amount which the Pension Fund wishes to make available for investment, or the amount which it wishes withdrawn, as the case may be. Such requests shall also contain other information which the Board of Investments considers necessary. Detailed participation guidelines shall be approved at a regular meeting of the Board of Investments. The Board of Investments may require advance notice, as determined by the Board, for withdrawals of one million (\$1,000,000.00) or more.

Section 4. Accounting

4.01. Nature of Ownership - ~~Each Participant shall own a hundred percent (100%) interest in the pool in which its funds are invested.~~ Each Participant shall own an undivided interest in the portfolio fixed income investment pools of the Consolidated Pension Fund based on the Participant's prorata contribution of assets at any time. Ownership shall be expressed in terms of units. Detailed operational guidelines shall be approved at a regular meeting of the Board of Investments. Each Participant, by completing and returning an "Account Request Form" to the Board of Investments, has

consented to the methods of sharing gains and losses and all other accounting methods required or adopted by the Board.

4.02. Accounting System - The Board of Investments shall ~~implement~~ maintain an accounting system based on Generally-Accepted Accounting ~~principals~~ Principles.

~~4.03. Trading Gains and Losses - The Board of Investments shall recognize all realized trading gains and losses within the month in which they occur.~~

~~4.03.4.04. Distribution of Earnings; Monthly Statement - The Board of Investments shall furnish to each Participant a monthly statement. This statement shall include distributed of net earnings or losses, deposits, and withdrawals and changes in market value, if applicable, for each account. Monthly Participants will be periodically provided statements shall also include reflecting an accurate statement of the yield for the preceding month period for each individual investment pool in which the participant assets are invested.~~

Section 5. Investment of Consolidated Pension Fund

5.01. General Investment Policies, Objectives and Restrictions - All fixed income investment pools in the Consolidated Pension Fund shall be ~~individually~~ subject to the policies, objectives and restrictions set forth herein.

(a) Purpose - The Board's purpose is to invest and protect the assets of the Consolidated Pension Fund for the benefit of the Participants. ~~citizens of the State of West Virginia.~~

(b) Standard of Care - All investments are to be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which people of experience, 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.

(c) Permissible Investments - The Consolidated Pension Fund shall abide by West Virginia Code §12-6-9, as amended, and these rules and regulations with regard to permissible investments.

(d) Social Responsibility - To the extent that investments are consistent with all other standards established by the Board, selection of investments should consider the best interests of the Participants. ~~people of the State of West Virginia.~~

(e) Custody - The Board shall designate and maintain custodian arrangements in its sole discretion and no investment advisor shall maintain custody of the securities of the Consolidated Pension Fund.

(f) Investment Advisors - The Board may select and contract with investment advisors who shall act in accordance with the terms and conditions specified by the Board and the applicable State and Federal laws.

(g) Investment Objectives - All pools within the Consolidated Pension Fund shall be subject to the

investment objectives listed below in descending order of priority:

(1) Preservation of Capital - To preserve the capital investment in the Consolidated Pension Fund.

(2) Diversification - To diversify the investment of the assets of the Consolidated Pension Fund so as to minimize the risk of large losses.

(3) Rate of Return - To achieve a rate of return consistent with the rate of return objectives set by the Board.

(4) Stability - To maintain a high level of security in the Consolidated Pension Fund by minimizing risk and volatility insofar as possible within the rate of return objectives set by the Board.

(5) Turnover - To minimize transaction costs.

(6) Liquidity - To maintain sufficient liquidity to provide for all anticipated withdrawals or transfers and to invest in securities with sufficient marketability to provide for unexpected withdrawals.

(h) Investment Restrictions

(1) The Consolidated Pension Fund shall abide by the investment restrictions of West Virginia Code §12-6-10 and as further set forth by the Board.

(2) Not more than 20% of the portfolio of the

Consolidated Pension Fund may be invested in any single industry sector. (The utility industry shall be separated for the purpose of this restriction between telephone, electric, gas distribution, and similar segments.)

(3) The Consolidated Pension Fund shall maintain a reasonable balance between the various classes of fixed income securities, without over-concentration.

(4) The Consolidated Pension Fund shall abide by the quality restrictions of West Virginia Code §12-6-9.

(5) Investment in financial futures contracts, options and other similar instruments shall be authorized for the sole purpose of performing hedges in order to reduce the risk associated with fluctuations in interest rates or market prices. Such investments shall be limited to direct obligations of, or obligations guaranteed as to the payment of both principal and interest by, the United States of America; namely, Treasury bills, notes, bonds and GNMA's. For purposes of these rules and regulations, the word "hedge" means taking a position in the futures or options market which is opposite and approximately equal to the one held in the cash market. This is a defensive strategy and shall only be used to protect the

overall values of the various portfolios. Advance unanimous approval of the Board must be obtained prior to each transaction in instruments of this type.

5.02. Investment Pools - The Consolidated Pension Fund is composed of various fixed income investment pools for the Pension Funds. It is the intent of the Board that the composite Consolidated Pension Fund meet ~~there be separate portfolio guidelines for the administration of each investment pool in addition to the policies, objectives and restrictions set forth in Subsection 5.01. The Board of Investments shall administer each investment pool in the Consolidated Pension Fund in accordance with these rules and regulations and as may be further prescribed by the Board. All the investment pools which compose the Consolidated Pension Fund shall be required to meet individually the guidelines outlined in Tables I and II of this Rule. Due to the presently existing non-liquid investments contained in the portfolio on the effective date of these rules and regulations, the current investment portfolio may not be considered when applying the maximum limit on the obligations of any single private corporation for 5 years from these effective date of these rules and regulations.~~

5.03. Asset Allocation Plan - The Board's staff shall prepare an asset allocation plan on at least an annual basis, which shall be reviewed and approved annually at a regular meeting of the Board. The purpose of the asset allocation

plan is to ensure that the benefits to each Pension Fund is maximized based on the conditions and needs of each participant.

5.034. Instructions for Use of Tables - The percentages in the "Minimum" column are the minimum percentages which the Board must maintain in each type of investment instrument. For example, the 15% figure in Table I, Line 1, means that a minimum of fifteen percent of the Investment Pool Consolidated Pension Fund fixed income investments shall be invested in U. S. Government obligations. If the minimum percentage is "0", as in Table I, Line 2, the Board of Investments is not required to invest any moneys of the pool fund in instruments of that type.

The percentages in the "Maximum" column are the maximum percentages of the pool fund which may be maintained in each type of instrument. For example, in Table I, Line 1, the 100% figure in the "Maximum" column means that the Board may keep the entire pool fund invested in U. S. Government obligations. If the maximum percentage is "10", as in Table I, Line 4, this means that the Board of Investments is permitted to invest in instruments of that type up to a maximum of 10% of the pool fund.

In Table 1, the "Code Reference" column refers to the section of the West Virginia Code which authorizes the kind of instrument described under the "Instrument" column.

TABLE I
GUIDELINES FOR DIVERSIFICATION
ACCORDING TO KIND OF INVESTMENT INSTRUMENT

	<u>Instrument</u>	<u>Code Reference</u>	<u>Minimum</u>	<u>Maximum</u>
1.	U. S. Government Obligation	\$12-6-9(a)	15%	100%
2.	U. S. Government Agency Obligation	\$12-6-9(b)	0%	85%
3.	Federally insured WV home mortgages	\$12-6-9(d)	0%	10%
4.	Privately insured pools of WV home mortgages	\$12-6-9(f)	0%	10%
5.	Corporate bonds, notes debentures, commercial paper and other evidence of indebtedness	\$12-6-10(1) \$12-6-9(g)	0%	75%
6.	Commercial paper and other corporate ob- ligations maturing in less than one year	\$12-6-10(2) \$12-6-9(g)	0%	20%
7.	Obligations of any single private corporation	\$12-6-10(3)	0%	3%
8.	Fully collateralized WV certificates of deposit maturing in less than one year	\$12-6-9(h)	0%	30%
9.	Repurchase agreements	\$12-6-5(9)	0%	75%
10.	Reverse repurchase agreement	\$12-6-5(10)	0%	15%
11.	Equity securities of Standard & Poors 500 Companies	\$12-6-9(j)	0%	20%

TABLE II
GUIDELINES FOR DIVERSIFICATION
ACCORDING TO QUALITY OF CORPORATE DEBT INSTRUMENTS
AUTHORIZED BY TABLE I

<u>Instrument</u>	<u>Minimum</u>	<u>Maximum</u>
1. Corporate bonds and notes rated "AAA" or equivalent	0%	100%
2. Corporate bonds and notes rate "AA" or equivalent	0%	50%
3. Corporate bonds and notes rated "A" or equivalent	0%	30%
4. Commercial paper rated in highest grade ("P-1" or equivalent)	0%	20%

Any corporate debt instrument that is downgraded following purchase may be liquidated at the Board of Investment's discretion if such downgrading puts the debt instrument out of compliance with Table II.

Section 6. Miscellaneous

6.01. Minimum Amount of Investment - The minimum amount of investment in the Consolidated Pension Fund is One Thousand Dollars (\$1,000.00). There is no minimum time for which deposits will be retained.

6.02. Payment of Expenses from Earnings - The Board of Investments shall deduct expenses incurred in the administration of the Consolidated Pension Fund from the gross earnings of the fund monthly. Such fees shall be established by the Board on a pro rata basis.

6.03. Board Reports - The Board of Investments staff shall provide Board members a monthly financial statements prepared in accordance with Generally Accepted Accounting Principles and financial schedules ~~report~~ reflecting all purchases, and sales, and trades for each pool. ~~and also, a copy of the portfolio for each investment pool, reflecting the market value for each investment.~~

6.04. Authorized Financial Institutions and Brokers - The Board of Investments staff may not do business with any financial institution or brokerage firm that has not been approved by Board members. At the first Board meeting of each fiscal year, the Board of Investments staff shall provide Board members with a complete list of all financial institutions and brokerage firms for which the Boards staff request to transact business, currently on the approved list ~~for their review and approval.~~

6.05 Reserve for Losses - The Board is authorized to establish, by appropriate accounting method, a reserve for loan losses. No interest shall be included in earnings calculations on any loans that are delinquent by sixty days or more, or for which the Board's staff determine collection to be doubtful.

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