

WEST VIRGINIA
SECRETARY OF STATE
KEN HECHLER
ADMINISTRATIVE LAW DIVISION

Form #1

Do Not Mark In this Box

FILED
1989 NOV -2 AM 10:53
OFFICE OF WEST VIRGINIA
SECRETARY OF STATE

NOTICE OF PUBLIC HEARING ON A PROPOSED RULE

AGENCY: Board of Investments TITLE NUMBER: 113

RULE TYPE: Legislative; CITE AUTHORITY Chapter 12-6-5

AMENDMENT TO AN EXISTING RULE: YES NO 113

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: _____

DATE OF PUBLIC HEARING: Monday, December 4, 1989 TIME: 2:15 p.m.

LOCATION OF PUBLIC HEARING: State Capitol Complex

Conference Center - Building #7

Room B

COMMENTS LIMITED TO: ORAL , WRITTEN , BOTH

COMMENTS MAY ALSO BE MAILED TO THE FOLLOWING ADDRESS:

Attn: D. Jerry Simpson
WV State Treasurer's Office

State Capitol Complex - Room E147
Charleston, WV 25305

The Department requests that persons wishing to make comments at the hearing make an effort to submit written comments in order to facilitate the review of these comments.

The issues to be heard shall be limited to the proposed rule.

ATTACH A **BRIEF** SUMMARY OF YOUR PROPOSAL

The general purpose of these rules is to aid in the implementation of the legislative findings and purpose set forth in Section One, Article One, Chapter Twelve of the Code, wherein the Board and the Treasurer are authorized to develop and maintain modern systems, consistent with sound financial practices, for the collection, disbursement, management and invest of public moneys. The rules of this series 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.

PENSION/GEN8911

APPENDIX B

FISCAL NOTE FOR PROPOSED RULES

Rule Title: Rules for the Administration of the Consolidated Pension Fund

Type of Rule: X Legislative Interpretive Procedural

Agency Board of Investments Address
 c/o State Treasurer's Office, State Capitol, Charleston, WV 25305

N/A	1. Effect of Proposed Rule	ANNUAL		FISCAL YEAR		
		Increase	Decrease	Current	Next	Thereafter
	Estimated Total Cost	\$	\$	\$	\$	\$
	Personal Services					
	Current Expense					
	Repairs and Alterations					
	Equipment					
	Other					

2. Explanation of above estimates:

These proposed rules are an amendment to the original rules filed in 1978. It is not anticipated that these amended rules will require the expenditure of any additional funds.

3. Objectives of these rules:

The general purpose of these rules is to aid in the implementation of the legislative findings and purpose set forth in Section One, Article One, Chapter Twelve of the Code, wherein the Board and the Treasurer are authorized to develop and maintain modern systems, consistent with sound financial practices, for the collection, disbursement, management and investment of public moneys. The rules of this series 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.

4. Explanation of Overall Economic Impact of Proposed Rule.

A. Economic Impact on State Government.

These proposed rules will continue to allow the pension funds of the State to be fully invested and accounted for on a more accurate basis.

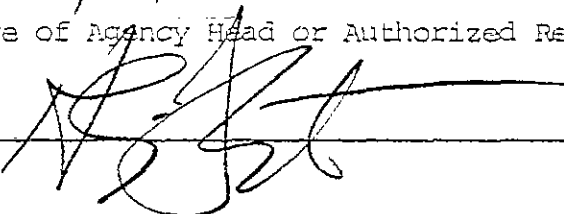
B. Economic Impact on Political Subdivisions; Specific Industries; Specific groups of citizens.

Although there are currently no local government pension funds invested by the Board, these rules would insure that if this were to occur at some future date these funds would be properly accounted for.

C. Economic Impact on Citizens/Public at Large.

Date: 11/2/89

Signature of Agency Head or Authorized Representative



WEST VIRGINIA ADMINISTRATIVE REGULATIONS
West Virginia State Board of Investments

Chapter 12-6
Series II
(1978 - Amended 1989)

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

TABLE OF CONTENTS

Section 1. General

- 1.01. Scope
- 1.02. Authority
- 1.03. Purpose
- 1.04. Effective Date

Section 2. Definitions

Section 3. Mechanics of Participation in the Consolidated
Pension Fund

Section 4. Accounting

- 4.01. Nature of Ownership
- 4.02. Accounting System
- 4.03. Trading Gains and Losses
- 4.04. Distribution of Earnings; Monthly Statement

Section 5. Investment of Consolidated Pension Fund

- 5.01. General Investment Policies, Objectives and
Restrictions
- 5.02. Investment Pools
- 5.03. Instructions for Use of Tables

Section 6. Miscellaneous

- 6.01. Minimum Amount of Investment
- 6.02. Payment of Expenses from Earnings
- 6.03. Board Reports
- 6.04. Authorized Financial Institutions and Brokers

WEST VIRGINIA ADMINISTRATIVE REGULATIONS

West Virginia State Board of Investments

FILED

1989 NOV -2 AM 10:53

OFFICE OF WEST VIRGINIA
SECRETARY OF STATE

Chapter 12-6

Series II

(1978 - Amended 1989)

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 Article Six, Chapter Twelve of the Code of West Virginia, 1931 as amended, relating to the Consolidated Pension Fund established by Subsection (a), Section Eight of said Article.

1.02. Authority - These rules are issued under the authority of said Article Six, Chapter Twelve, particularly Section Five, which authorizes the Board to promulgate rules and regulations for the management and conduct of its affairs, and Section Eight, which authorizes the Board to establish rules and regulations for the administration of the various funds and accounts established by said Section Eight.

1.03. Purpose - The general purpose of these rules is to aid in the implementation of the legislative findings and purpose set forth in Section One, Article One, Chapter Twelve of the Code, wherein the Board and the Treasurer are authorized to

develop and maintain modern systems, consistent with sound financial practices, for the collection, disbursement, management and investment of public moneys. The rules in this series 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. Effective Date - These regulations are promulgated on the _____ day of _____ 19____, and become effective the _____ day of _____ 19____.

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 Subsection (a), Section Eight, Article Six, Chapter Twelve of the Code;

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

"Pension Funds" means and includes the workmen's compensation fund; the state teachers' retirement system funds; the death, disability and retirement fund for members of the department of public safety; the public employees' retirement

system funds; the judges' retirement fund; policemen's pension and relief funds; firemen's 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;

The term "securities" shall have the same meaning set forth in Section Two, article Six, Chapter Twelve of the Code;

"Select U. S. Government Agency Obligation" means and includes any evidence of indebtedness issued by any of the following: the Government National Mortgage Association ("GNMA"), Federal Home Loan Banks ("FHLB"), Federal Farm Credit Banks ("FFCB"), and the Federal Land Banks;

"Treasurer" means the Treasurer of the State of West Virginia; and

"U.S. Government Agency Obligation" means and includes any evidence of indebtedness issued by any of the following: the GNMA; FHLB; FFCB; Federal Land Banks; the Federal Home Loan Mortgage Corporation ("FHLMC") the Federal National Mortgage Association ("FNMA"); federal home loan banks; federal intermediate credit banks; banks for cooperatives; Tennessee Valley Authority; United States postal service; farmers home administration; export-import bank; federal financing bank and Student Loan Marketing Association;

"U.S. Government Obligations" means and includes 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 requests to the Treasurer. Written requests for deposits or withdrawals shall state the amount which the Pension Fund wishes to make available for investment, or the amount which wishes to withdraw, as the case may be. Such requests shall also contain other information which the Treasurer deems necessary. The Treasurer may require twenty-four hours advance notice for withdrawals of one million (\$1,000,000.00) or more.

Section 4. Accounting

4.01. Nature of Ownership - Each Participant shall own an undivided interest in the portfolio of the Consolidated Pension Fund based on the Participant's pro-rata contribution of assets at any time. Ownership shall be expressed in terms of units. Each Participant, by participating in the Consolidated Pension Fund, is deemed to have 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 Treasurer shall implement an accounting system based on a daily accrual method for earnings, deposits and withdrawals for each participant in the Consolidated Pension Fund. In conjunction with such accounting system, the Treasurer shall adopt procedures which accurately

reflect yields on investments through amortization of premium and accretion of discount over the life of the investment as determined by investment practices of the investment community. That is to say, for investments customarily having yields to the average life of the investment such as GNMA mortgage pools, the premium or discount shall be amortized to the average life. Premium or discount for all other investments shall be amortized over the life of the investment.

4.03. Trading Gains and Losses - The Treasurer shall recognize all trading gains and losses within the month in which they occur.

4.04. Distribution of Earnings; Monthly Statement - The Treasurer shall furnish to each Participant a monthly statement of earnings, deposits and withdrawals for each account. Monthly statements shall also include an accurate statement of the yield for the preceding month for each investment pool.

Section 5. Investment of Consolidated Pension Fund

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

(a) Purpose - To invest and protect the assets of the Consolidated Pension Fund for the benefit of the citizens of the State of West Virginia. To preserve principal and seek the highest investment return consistent with the fiduciary standards established under State and Federal Law, the

regulations of the State of West Virginia and the guidelines of the State Board of Investments.

(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, 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 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 shall select and maintain investment advisors who shall act in accordance with the terms and conditions specified by the Board.

(g) Investment Objectives

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

(2) 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.

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

(4) Turnover - To minimize transaction costs.

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

(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 Consolidated Pension Fund's value at market 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) Not more than 3% of the Consolidated Pension Fund's value at market may be invested in the securities issued by a single, private corporation or association.

(4) The Consolidated Pension Fund shall maintain a reasonable balance between the various classes of fixed income securities, without overconcentration.

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

(6) 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 and bonds. For purposes of these regulations, the word "hedge" means taking a position in the futures 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 our 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 investment pools for the Pension Funds. It is the intent of the Board that there be separate portfolio guidelines for the administration of each investment pool in addition to the policies, objectives and restrictions set forth in section 5.01 above. The Office of the State Treasurer, as staff agency for the Board, shall administer each investment

pool in the Consolidated Pension Fund in accordance with the guidelines set forth in this series and as may be further prescribed by the Board. All the investment pools which compose the Consolidated Pension Fund, shall be required to individually meet the guidelines outlined in Tables I, II and III below.

5.03 Instructions for Use of Tables - The percentages in the "Minimum" column are the minimum percentages which the State Treasurer must maintain in each type of investment instrument. For example, the 15% figure in Table I, Line 1, means that the State Treasurer must at all times keep at least 15% of the Investment Pool invested in U.S. Government obligations. If the minimum percentage is "0", as in Table I, Line 2, the State Treasurer is not required to invest any moneys of the pool in instruments of that type.

The percentages in the "Maximum" column are the maximum percentages of the pool 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 State Treasurer may keep the entire pool invested in U.S. Government obligations. If the maximum percentage is "10", as in Table I, Line 4, this means that the State Treasurer is permitted to invest in instruments of that type up to a maximum of 10% of the pool.

In Table I, the "Code Reference" column refers to the section of the West Virginia Code which authorized 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%	100%
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 obligations 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	§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 Fortune 500 Companies *		0%	35%

*Investment in securities of this type shall be allowed only to the extent authorized by statute.

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"	0%	100%
2. Corporate bonds and notes rated "AAA"	0%	50%
3. Corporate bonds and notes rated "A"	0%	30%
4. Commercial paper rated in highest grade ("P-1" or equivalent)	0%	20%

TABLE III

GUIDELINES FOR DIVERSIFICATION
ACCORDING TO INVESTMENT MATURITY

<u>Maturity</u>	<u>Minimum</u>	<u>Maximum</u>
1. Within 91 days	10%	100%
2. Ninety-two (92) days up to, through and including 2 years	15%	90%
3. Beyond 2 years but less than 5 years	0%	75%
4. Beyond 5 years	0%	35%

Section 6. Miscellaneous

6.01. Minimum Amount of Investment - The minimum amount for 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 Treasurer 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.

6.03. Board Reports - The Treasurer, as staff agency for the Board, shall provide the Board a monthly report reflecting all purchases, sales, and trades for each pool. Also, a copy of the portfolio for each investment pool, reflecting the market value for each investment, shall be provided the Board.

6.04. Authorized Financial Institutions and Brokers - The Treasurer, acting as staff agency for the Board, shall be prohibited from doing business with any financial institution or brokerage firm that has not been approved by the Board. At the first Board meeting of each fiscal year, the Treasurer shall provide the Board with a complete list of all financial institutions and brokerage firms currently on the approved list for their review.

WEST VIRGINIA ADMINISTRATIVE REGULATIONS
West Virginia State Board of Investments

Chapter 12-6
Series II
(1978 - Amended 1989)

INDEX

References are to section numbers.

Accounting System, 4.02
Authority for Rules, 1.02
Authorized Financial Institutions and Brokers, 6.04
Board Reports, 6.03
Definitions, 2.01
Distribution of Earnings, 4.04
Effective Date, 1.04
General Investment Policies, 5.01
Instructions for Use of Tables, 5.03
Investment Pools, 5.03
Minimum Amount of Investment, 6.01
Monthly Statement, 4.04
Nature of Ownership in Fund, 4.01
Participation in Fund, 4.01
Payment of Expenses from Earnings, 6.02
Purpose, 1.03
Scope, 1.01
Trading Gains and Losses, 4.03

SERIESII/GEN8910