

WEST VIRGINIA ADMINISTRATIVE REGULATIONS
West Virginia State Board of Investments

Chapter 12-6
Series II
(1990)

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

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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 the Code of West Virginia, 1931 as amended, §12-6-1 et. seq. relating to 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 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. 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 July 8, 1981 and effective July 8, 1981.

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 §12-6-8(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 state teachers' retirement system funds; 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;

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

"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 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 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; and

"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 it wishes withdraw, as the case may be. Such requests shall also contain other information which the Treasurer considers 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 a hundred percent (100%) interest in the pool in which its funds are invested.

4.02. Accounting System - The Treasurer shall implement an accounting system based on generally-accepted accounting procedures for earnings, deposits and withdrawals of 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 individual 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 - The Board's purpose is to invest and protect the assets of the Consolidated Pension Fund for the benefit of the citizens of the State of West Virginia and to preserve principal and seek the highest investment return consistent with the fiduciary standards established under State and Federal Law, the rules and 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, 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 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 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) Not more than 3% of the portfolio of the Consolidated Pension Fund 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 over-concentration.

(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, bonds and GNMA's. For purposes of these rules and 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 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 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 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 the attached Tables I and II.

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 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%	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	§12-6-10(1)		
indebtedness	§12-6-9(g)	0%	75%
6. Commercial paper and other			
corporate obligations			
maturing in less than	§12-6-10(2)		
one year	§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 *		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 "AA"	0%	50%
3. Corporate bonds and notes rated "A"	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 Treasurer'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 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 on a pro rata basis.

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, 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 Treasurer, acting as staff agency for the Board, may not do 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.

SERIESII/GEN8910

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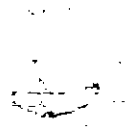
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help we can get)

TO: Jerry Simpson

AGENCY: Board of Investments

FROM: JUDY COOPER, DIRECTOR ADMINISTRATIVE LAW DIVISION

DATE: March 22, 1991

THE ATTACHED RULE RECENTLY FILED BY YOUR AGENCY HAS BEEN ENTERED INTO OUR COMPUTER SYSTEM. PLEASE REVIEW, PROOF AND RETURN IT WITH ANY CORRECTIONS. IF THERE ARE NO CORRECTIONS, PLEASE SIGN THIS MEMO AND RETURN IT TO THIS OFFICE. YOU WILL BE SENT A FINAL VERSION OF YOUR RULE FOR YOUR RECORDS.

PLEASE RETURN EITHER THE CORRECTED RULE OR THIS FORM WITHIN TEN (10) WORKING DAYS OF THE DATE YOU RECEIVED THIS REQUEST. CALL IF YOU HAVE ANY QUESTIONS.

SERIES: 2 TITLE Consolidated Pension Fund

* THE ATTACHED RULE HAS BEEN REVIEWED AND IS CORRECT.

SIGNED: _____

TITLE OF PERSON SIGNING: _____

DATE: _____

* THE ATTACHED RULE HAS BEEN REVIEWED AND NEEDS CORRECTING. THE CORRECTIONS HAVE BEEN MARKED.

SIGNED: _____

TITLE OF PERSON SIGNING: _____

DATE: _____