

# **FARM CREDIT SYSTEM INSURANCE CORPORATION POLICY STATEMENT CONCERNING INVESTMENTS**

## **Purpose:**

The purpose of this policy is to:

1. Define the uses of Farm Credit System Insurance Corporation (Corporation) funds;
2. State the Corporation's primary objectives in the management of its funds;
3. Provide management with the flexibility needed to effectively and efficiently manage Corporation funds; and
4. Provide a basis for evaluating fund performance, and a basis for modification of this policy.

## **Background:**

The Farm Credit System Insurance Corporation was created by the Agricultural Credit Act of 1987 to insure the timely payment of interest and principal on insured obligations and the retirement of eligible borrower stock at par value. Corporation funds may also be used to provide financial assistance to certain System institutions and to pay operating expenses of the Corporation.

The Farm Credit Insurance Fund represents the assets of the Corporation less its liabilities.

## **Investment of Funds:**

Funds of the Corporation, not otherwise employed, must by law be invested in obligations of the United States or obligations guaranteed as to principal and interest by the United States.

## **Investment Objectives:**

It will be the primary objective of the Corporation to assure adequate liquidity to meet its statutory obligations. Secondly, the Corporation will seek to optimize the rate of return, consistent with its liquidity needs, and a minimum exposure of loss of principal. The Corporation will not trade for capital gains purposes.

## **Composition of the Portfolio:**

All available funds not needed for operations will be invested in interest-bearing assets in accordance with this policy. The Corporation will limit its investments to market-based Treasury one-day repurchase certificates, bills, notes and bonds through the U.S. Treasury's Financial Management Service. Investments will be held by the Treasury in book-entry form.

The investment portfolio shall include two components, a liquidity pool and an investment pool. Investments in the liquidity pool shall consist of securities with a maturity of two years or less. The liquidity pool shall normally be maintained with a minimum of at least 20 percent of the total investment portfolio of the Corporation. The Corporation's Investment Committee shall consider the risk

environment for System banks and associations and the potential need for Insurance Fund disbursements in approving investment strategy to allow for increasing or decreasing liquidity as necessary.

The investment pool shall be used to meet liquidity needs as necessary and to enhance the total return on the portfolio. Investment in longer term securities can be made to facilitate match funding of long-term Corporation liabilities and for other purposes as approved by the Investment Committee. To reduce market value volatility, all securities purchased for the investment pool component will be limited to remaining maturities from two to ten years. Additionally, investments purchased with remaining maturities between five and ten years shall be limited to 20 percent of the total investment portfolio of the Corporation.

If a deviation from the maturity schedule set forth in this policy is necessitated by a resolution of the Board of Directors to authorize an outlay of Corporation funds to fulfill its statutory authorities, the portfolio shall be restructured to conform to this policy as soon as practicable. However, nothing shall require the disposition of any existing investment to achieve said restructuring.

### **Control Environment, Authorities and Reporting:**

Investments within the parameters of this policy will be administered by the Chief Operating Officer of the Corporation. The Chief Operating Officer shall chair an Investment Committee consisting of the Chief Operating Officer, Chief Financial Officer, Chief Investment Officer and the Director of Risk Management. If one or more members of the Investment Committee are unavailable, the Chief Operating Officer may designate other senior Corporation staff members to serve on the Investment Committee. The Investment Committee shall meet at least once each quarter to review the performance, composition and appropriate accounting treatment of current investments as well as future investment opportunities. Investment decisions will be documented through the preparation of decision memoranda and minutes will maintained for all Investment Committee meetings.

The Chief Operating Officer will report to the Board of Directors quarterly on the status of the Corporation's investments, including adjustments contemplated in the ensuing calendar quarter. The Corporation has adopted Accounting Standards Codification Topic 320 (ASC 320), Investments – Debt and Equity Securities. Corporation accounting and reporting of investment transactions shall be in compliance with ASC 320. To benchmark performance, the Corporation will compare the rate of return achieved to similarly invested funds, or other appropriate benchmarks, and report the results annually to the Board and the public.

The policy shall be subject to annual review by the Investment Committee at which time decisions regarding any needed modification shall be recommended to the Board of Directors. The Investment Committee shall meet at least quarterly to review the performance of the investment portfolio, current investment opportunities and to determine whether changes to the classification categories of investments based on the criteria of ASC 320 should be made. In the event of a tie vote on any issue before the Investment Committee, the Chief Operating Officer of the Corporation shall decide the issue's outcome.

Any deviations from this policy must be approved by the Board of Directors.