

# **KING COUNTY INVESTMENT POOL STATEMENT OF INVESTMENT POLICY**

(Replaces Policy Adopted on July 27, 2011)

## **PURPOSE:**

The purpose of this document is to set forth the investment and operational policies for the management of the King County Investment Pool ("Pool"), which consists of the pooled monies invested on behalf of the County and other special purpose districts within the County. These policies have been adopted by, and can be changed only by, a majority vote of the Executive Finance Committee (EFC). These policies are designed to help King County meet the objectives of the Pool.

The King County Investment Policy has been prepared in accordance with State law. This policy shall be reviewed and approved annually by the EFC. The Director of the Finance and Business Operations Division ("Director") shall recommend policy changes to the EFC as they become necessary.

## **SCOPE:**

The King County Investment Policy applies to all financial assets invested in the Pool as defined in King County Code (KCC) 4.10.090. This policy also covers King County non-pooled investments and investments made by individual districts unless otherwise requested by those districts. Non-pooled King County investments which do not meet the criteria of this policy require approval by the EFC.

## **POOL GOVERNANCE:**

The King County Council has delegated authority for oversight of the Pool to the EFC, which serves the role of the County Finance Committee as defined in RCW 36.48.070. The Investment Pool Advisory Committee (IPAC) was created by Ordinance 16280 to provide input to the EFC on matters related to the County Investment Pool. The IPAC has not been vested with decision making authority for the Pool; it will make recommendations to the EFC on its agenda items related to the Pool. The IPAC is comprised of 10 members drawn from representatives of King County government agencies and nearly 100 other special purpose districts, including school, fire, sewer, library, water and other districts within the County.

## **PRUDENCE:**

The Standard of Prudence to be applied to the administration of the Pool shall be the "prudent investor" rule, which states, "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 prudent investor

rule shall be applied in the context of managing all financial assets within the scope of this Policy.

**OBJECTIVES:**

It is the policy of the County to invest public funds in a manner which will preserve the safety and liquidity of all investments within the Pool while obtaining a reasonable return within established investment guidelines. The portfolio should be managed in a manner that is responsive to the public trust and consistent with State law. Accordingly, the Pool will be guided by the following principles, which are intended to supplement KCC 4.10.060:

1. The primary objective of King County's investment of public funds is to safeguard investment principal.
2. The secondary objective is to maintain sufficient liquidity to ensure that funds are available to meet daily cash flow requirements.
3. The third consideration is to achieve a reasonable yield consistent with these objectives.

**DELEGATION OF AUTHORITY:**

The Director is responsible for the management and investment of public funds (per KCC 2.16.035) and has delegated management responsibilities as follows:

The Director shall be accountable for all investment transactions undertaken and shall establish a system of internal controls and written procedures to regulate investment activities and personnel. The Director shall also recommend policy changes to the EFC as necessary.

The Director has delegated to the Treasury Manager and Cash Management Supervisor the responsibility of recommending any needed changes to investment policies, strategies, tactics, or internal controls. Specifically, the Cash Management Supervisor is responsible for supervising all daily investment related activities and maintaining adequate internal controls over King County's active investment program.

The Investment Officer and Credit Analyst are responsible for the daily administration of the Pool and recommending and implementing portfolio strategies and tactics to the EFC. The Investment Officer and Credit Analyst shall provide financial analysis that supports proposed portfolio adjustments and insure that investment activities are consistent with economic, market, and liquidity conditions.

**PARTICIPATION IN THE COUNTY INVESTMENT POOL:**

Participation in the Pool is limited to King County government agencies and other special purpose districts, including school, fire, sewer, library, water and other districts within King County for which the King County Treasury Manager serves as Treasurer.

Other public entities located within King County, for whom the County does not serve as Treasurer, may also be considered for membership in the pool; provided that each entity sign and adhere to the terms and conditions of the Interlocal Agreement; and provided further that the Director may choose, at his/her discretion, to cap the amount the entity may invest in the pool at any given time in order to prevent very large cash withdrawals from adversely impacting the earnings of other pool members. If such a cap is requested, it shall be reflected in a written addendum to the Interlocal Agreement.

Interlocal Agreements: Special purpose districts are required to sign an Interlocal Agreement when entering the Pool. This Agreement shall renew automatically each year on the districts' anniversary date unless either the county or the district has exercised the termination options under Section VIII of the agreement. The Interlocal Agreement governs the district's investments and withdrawals from the Pool.

Fees and charges: The Pool assesses two fees, both of which are charged monthly as a percentage of the total assets invested in the Pool. The first fee is the Investment Pool Fee, which is a fixed rate established by the EFC and charged to all pool participants. RCW 36.029.022 limits that fee to no more than the actual cost of operating the pool. By March 31 of each year, the actual costs for operating the pool for the previous year are determined and a rebate of the excess collected is made to pool members. The second fee is the Cash Management Pool Fee, which is set at 1.5% of the monthly pool earnings rate, not to exceed 8 basis points, regardless of the investment pool rate. It is charged only to those pool members that select to have their available balances automatically invested.

**AUTHORIZED INVESTMENTS:**

Investments in the Pool shall be restricted to those authorized in Washington State law and as further restricted by these investment policies. All investments shall be further governed by the restrictions shown in Schedules I, II, and III, which defines the type of investments authorized, maturity limitations, portfolio diversification (maximum percent of portfolio's book value), credit quality standards, and purchase restrictions that apply.

In conjunction with these restrictions, county staff shall diversify investments of the Pool by security type, issuer and maturity. The purpose of this diversification is to reduce portfolio risk by avoiding an over concentration in any particular maturity, sector, asset class or specific issuer.

**AUTHORIZED BROKER/DEALERS:**

The County shall maintain an 'Authorized Broker/Dealer List'. Security transactions are limited solely to those banks, direct issuers and dealers included on this list. All financial institutions, whether investment banks, dealers, commercial banks or savings and loan institutions must be approved by the County before they receive county funds or are able to conduct business with the County. To become "approved" by the County, a broker/dealer with whom the County does business shall comply with the requirements set forth in Schedule IV.

**CREDIT REVIEW PROCESS:**

County staff shall conduct a thorough review and perform ongoing due diligence of all brokers, dealers, issuers of securities, and funds prior to investing or conducting transactions with these parties. The Pool may only buy securities from issuers included on an "approved credit list." Issuers are only included on the approved credit list after approval by the EFC. A detailed description of this process is included in the Credit Review Policy attached as Schedule V.

**INTERNAL CONTROLS & AUDITS:**

The County has established a system of internal controls to provide reasonable assurance that the Pool is operating effectively and efficiently, that financial reporting is reliable and that the Pool is in compliance with applicable laws and regulations. The concept of reasonable assurance recognizes that the cost of control shall not exceed the benefits likely to be derived and that the valuation of costs and benefits require estimates and judgments by management. The County shall develop and maintain written procedures for the operation of the investment program, which are consistent with this policy. These procedures shall include reference to segregation of duties, safekeeping, collateralization, wire transfers and banking related activities.

The State Auditor's Office conducts an examination of King County's financial affairs at reasonable, periodic intervals as the state auditor shall determine in accordance with RCW 43.09.260. This review helps to ensure compliance with applicable laws, regulations and Generally Accepted Accounting Principles (GAAP). In the past, this examination has occurred annually.

**SECURITY CUSTODY & DELIVERIES:**

All security transactions are to be conducted on a "delivery-versus-payment basis" (DVP). Confirmation receipts on all investments are to be reviewed on a timely basis for conformity with county transaction documentation. Confirmations resulting from securities purchased under repurchase agreements should clearly state (i) the underlying securities purchased, (ii) that these securities have been sold to the County under a repurchase agreement, and (iii) the stipulated date and amount of the resale by the County back to the seller of the securities. Refer to Schedule II for details regarding repurchase agreements.

All securities purchased shall be deposited for safekeeping with the custodial bank that has been contracted to provide the County with custodial security clearance services or with a tri-party custodian bank under a written tri-party repurchase agreement. Certificates of Deposit (CDs) and funds placed with the State of Washington Local Government Investment Pool are exempt from the DVP policy. Securities are not to be held in investment firm/broker dealer accounts. All securities will be held in the name of the County or in the nominee name of its custodian bank and reconciled monthly.

### **COMPETITIVE PRICING**

Investment transactions for liquid securities will be executed at prices that are supported either by three (3) competitive bids or offers; or by prices from electronic trading systems such as Bloomberg Professional Service, Tradeweb, or other electronic trading platforms. During volatile markets it may not be possible to obtain three (3) simultaneous bids or offers by phone. Under these circumstances, investment staff may rely on electronic trading systems to verify whether a bid or offer reflects a fair market value.

Evaluating prices for less liquid securities or securities with optionality such as, callable and mortgage-backed securities, will be accomplished using financial tools such as Option Adjusted Spread, Total Return, Breakeven, Spread analysis, etc. These types of securities will often be compared to similar, but not identical, securities to determine relative value.

A security with a higher price may be purchased instead of another similar alternative, if this higher priced security improves the portfolio's safety, liquidity, or diversification.

Securities that may be purchased without direct competitive offers include:

- Local government investment pool transactions.
- Certificates of deposit that are pledged to the State to satisfy pension obligations.
- Overnight repurchase agreements and bank savings accounts.
- Securities obtained through U.S. Treasury auctions.
- Primary issuances of U.S agency, municipal, and corporate offerings.

Whenever possible, securities that can be purchased without direct competitive prices will be compared to general market rates and secondary securities.

When investments are purchased directly from issuers (e.g. certificates of deposit) market prices shall be documented by reference to offerings of similar securities that are of comparable rating and maturity by other direct issuers.

All securities transactions will be documented and retained in the daily investment file or trade logs.

**LIQUIDITY AND MATURITY STRUCTURE:**

Maintenance of adequate liquidity to meet the cash flow needs of the Pool is essential. Accordingly, investments for the Pool will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities will be consistent with the liquidity requirements of the Pool in order to avoid the forced sale of securities prior to maturity.

The Pool will maintain an effective duration of less than 1.5 years. To provide sufficient liquidity to meet daily expenditure requirements for the following 12 months, the portfolio will maintain at least 40% of its total value in securities having a maturity of 12 months or less. Duration of less than 1.5 years is consistent with the Pool's objectives of safety of principal, providing sufficient liquidity and a reasonable rate of return. This duration, when combined with the minimum percentage that must mature within 12 months, provides an appropriate balance between the Pool's objectives.

The EFC validates compliance with these guidelines at regular meetings and may adopt adjustments beyond these.

**PERFORMANCE EVALUATION:**

Portfolio performance is evaluated monthly against a customized book value rate of return benchmark, which in keeping with the management philosophy and strategy of the Pool results in a steadier, more predictable rate of return than a total return benchmark. The benchmark reflects the average composition, target maturity and duration and risk tolerances of the pool. The composition of this benchmark is the weighted average book value return of the following benchmarks:

- 40% S&P Rated Government Investment Pool Index/All
- 60% Merrill Lynch 1-3 year Treasury/Agency Index

The S&P Rated Government Investment Pool Index/All has been selected as a component of the customized benchmark for its similarity to the shorter term segment of the Pool's assets. The S&P Rated GIP Index/All benchmark is a performance indicator of rated GIPs that maintain a stable net asset value of \$1.00 per share. The S&P Rated GIP Index/All was first introduced in March 1995 and is a composite of all rated stable net asset value pools. The index provides a simple average of seven-day and 30-day net and gross yields, average days to maturity, as well as the total assets of all pools publicly rated in Standard & Poor's two highest money market fund rating categories: 'AAAm' and 'AAm.' Gross yields and net yields are published to enable pool managers and investors to compare investment management performance.

The Merrill Lynch 1-3 Treasury/Agency Index has been selected as a component of the customized benchmark for its similarity to the longer term segment of the

Pool's assets. The Merrill Lynch 1-3 Treasury/Agency Index has a maturity that typically ranges between 1.4 and 1.6 years and its holdings are generally reflective of the high quality of the Pool's longer term holdings.

**MITIGATING MARKET & CREDIT RISKS:**

Safety of principal is the primary objective of the portfolio. Each investment transaction shall seek to minimize King County's exposure to market and credit risks by giving careful and ongoing attention to: (i) the creditworthiness of each issuer of securities (as specified in Schedule I), considering King County's own analysis, the credit ratings issued by Standard & Poor's, Moody's and/or Fitch's rating services, and research provided by other outside parties that the County may access from time to time; (ii) the duration of investments to the time frames noted in Schedule I; and (iii) the diversification and liquidity standards expressed within this policy. As stated in Schedule I, these restrictions apply at the time of purchase.

**IMPAIRED INVESTMENTS:**

In the event any investment becomes impaired, as defined in the Impaired Investment Policy (Schedule VI), the investment will be treated as detailed in Schedule VI.

**TRADING & EARLY SALE OF SECURITIES:**

Securities should be purchased, generally, with the intent of holding them until maturity. However, in an effort to minimize market risks, credit risks, and increase the overall portfolio yield, securities may be sold prior to maturity either at a profit or loss when economic circumstances or a deterioration in creditworthiness of the issuer warrant a sale of the securities to either enhance overall portfolio yield or to minimize loss of investment principal. In measuring a profit or loss, the sale proceeds shall be compared to the original cost of the security plus accrued interest earned and/or any accretion or amortization of principal on the security from the date of purchase or the last coupon date, to the date of sale.

In the event of a material downgrade of a security held in the portfolio, the Cash Management Supervisor, Investment Officer or Credit Analyst shall report the downgrade to the Treasury Manager or his/her designee and the Director. In the event of a downgrade below the minimum credit ratings authorized by this policy, the security shall be evaluated by the Treasury Manager or his/her designee on a case-by-case basis to determine whether the security shall be sold or held. It is preferred to sell such a security if there is no book value loss.

In the event a sale of a downgraded security would result in a loss, the Treasury Manager or his/her designee will evaluate whether to hold or sell the security based on the amount of loss, remaining maturity and any other relevant factors. The Director shall make the final decision regarding whether to hold or sell the downgraded security and shall inform the EFC of such decision in advance of executing the transaction, with the understanding the Director has the authority to

inform the EFC after the transaction in circumstances that require an expedited decision on behalf of the Pool and its members.

**PURCHASE OF ‘WHEN ISSUED’ SECURITIES:**

Purchases for the express purpose of trading these securities prior to cash settlement are discouraged. Purchases of ‘when-issued’ securities are otherwise authorized as long as sufficient cash is available to consummate their acceptance into the Pool portfolio on the settlement date, and at purchase there is the ability to hold them in the portfolio to maturity without violating any of the diversification/maturity limits of this policy (based on settlement date).

**PORTFOLIO REPORTING:**

Performance reports shall be presented to the EFC on a monthly basis. These reports shall include: (i) a listing of the existing portfolio in terms of investment securities, amortized book value, maturity date, yield-on-cost, market value, credit rating and other features deemed relevant and (ii) a listing of all transactions executed during the month.

In-depth investment performance reports shall be presented to the EFC on a quarterly basis: This report shall summarize: (i) recent market conditions, economic developments and anticipated investment conditions, (ii) the investment strategies employed in the most recent quarter, (iii) a description of all securities held in the Pool at month-end, (iv) the earnings and total rate of return for the quarter and year-to-date versus appropriate benchmarks, (v) any areas of policy concern warranting possible revisions to this Policy or current or planned investment strategies, (vi) composition of, and any additions to or deletions from the approved credit list, (vii) any other information that may be requested by the EFC. The amortized cost and market values presented in these reports will be consistent with accounting guidelines in GASB Statement 31 pertaining to the valuation of investments and the treatment of unrealized gains/losses.

Both the monthly and quarterly reports will also include a statement that the investment of the Pool is in compliance with this Policy, and if not, an explanation will be provided to the EFC.

**ETHICS & CONFLICTS OF INTEREST:**

Officers and staff members involved in the investment process shall maintain a code of ethics that is in compliance with the provisions of the Employee Code of Ethics KCC 3.04.

**CONTINUING EDUCATION:**

It is King County’s policy to require periodic investment training for the King County Investment Officer, Credit Analyst and any county employee delegated the authority to manage daily investment transactions for the Pool. The Director shall designate employees who should obtain at least twenty (20) hours of investment-related training each year. An employee that holds the Chartered

Financial Analyst (CFA) designation can meet the goal by completing the continuing education program sponsored by the CFA Institute. Non-CFAs can meet the goal by tracking the hours they spend completing investment related courses or training sponsored by professional organizations and associations, universities or other educational providers, investment firms, credit rating agencies, investment software vendors, and through self-study by using online programs or by reading investment related books or articles.

**POLICY ADOPTION & AMENDMENTS:**

This King County Investment Policy statement will become effective immediately following adoption by the EFC, and will remain in force until subsequently amended in writing and approved by the EFC.

Any further amendments require at least 60 days notice to IPAC members before the change is implemented, provided that the EFC has the discretionary authority to declare an emergency adoption of policies that may preclude or reduce the 60 day notice requirement.

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**SCHEDULE I**

**AUTHORIZED INVESTMENTS MATRIX:**

The following table should be considered along with the Schedules that follow. These Schedules provide additional information on criteria and restrictions that apply to many of the Authorized Investments listed in the table.

| <b>AUTHORIZED INVESTMENTS</b> | <b>MAXIMUM PORTFOLIO ALLOCATION<br/>(% of portfolio's book value at time of purchase)</b> | <b>ISSUER RESTRICTIONS<br/>(% of portfolio's book value at time of purchase)</b> | <b>CREDIT QUALITY (at time of purchase)<br/>(S&amp;P/MOODY'S/FITCH)</b>   | <b>MATURITY RESTRICTONS</b> |
|-------------------------------|---|--|---|-----------------------------|
| <b>U.S. Treasuries</b>        | 100%<br><br>(10% in the case of Treasury Inflation Protected Securities)                  | None   | Not Applicable  | Up to 5 years               |
| <b>U.S. Agencies</b>          | 100%<br><br>20% Floating/Variable Rate Notes  | Maximum 35% exposure to any single Agency  | Senior debt obligations issued by any government sponsored enterprise, agency or instrumentality of the United States, provided that such obligations are rated by S&P, Moody's, and Fitch at least as high as investments described under U.S. Treasuries.<br><br>U.S. Agencies category includes Floating and Variable Rate Notes. The use of floating and variable rate notes (FRNs and VRNs) issued by Federal Agencies of the U.S. Government is allowable in the management of the Pool provided that the following criteria are met:<br>1) The final maturity (at the time of purchase) is no greater than two years;<br>2) The rate on the FRN/VRN resets no less frequently than quarterly;<br>3) The rate on the FRN/VRN resets with a frequency that produces a close tracking with money market rates;<br>4) The FRN/VRN is indexed to a money market rate such as Federal Funds, the 3-month Treasury Bill, LIBOR, or Prime Rate which correlates very highly with overall changes in money market rates even under wide swings in interest rates;<br>5) Any cap on the interest rate is at least 15.00% (1500 basis points) higher than the coupon at time of purchase; | Up to 5 years               |

|  |     |   |  |                  |
|--|-----|---|--|------------------|
| <b>Repurchase Agreements</b>                     | 40% | 5% per investment dealer; the firm must adopt a master repurchase agreement with King County<br><br>Maximum 5% per issuer applied across investment type.<br>Term repo (greater than 7 days) – When combined with Banker’s Acceptance, Certificates of Deposit, Commercial Paper and Bank Notes not to exceed 50% of Pool assets. | The firm must adopt a master repurchase agreement with the County. Must have:<br>1. short-term credit ratings of at least A-1/P-1/F1 from at least two rating agencies; and<br>2. a minimum asset and capital size of \$25 billion in assets and \$350 million in capital for primary dealers<br>3. Firms rated A-1, P-1, or F1 on short-term credit watch “negative” will only be eligible for overnight maturities. Firms with short-term split ratings (e.g., A-2/P-1/F1) will not be acceptable as counterparties. | 60 days or less  |
| <b>Reverse Repurchase Agreements</b>             | 20% | 5% per investment dealer; the firm must adopt a master repurchase agreement with King County  | The firm must adopt a master repurchase agreement with the County. Must have:<br>1. short-term credit ratings of at least A-1/P-1/F1 from at least two rating agencies; and<br>2. a minimum asset and capital size of \$25 billion in assets and \$350 million in capital for primary dealers  | 6 months or less |
| <b>Local Government Investment Pool (“LGIP”)</b> | 25% | State of Washington LGIP  | Not Applicable   | Not Applicable   |
| <b>Bankers’ Acceptances</b>                      | 25% | 2.5% of portfolio; secondary market purchases only<br><br>Maximum 5% per issuer applied across investment type.<br>When combined with term Repos (greater than 7 days), Certificates of Deposit, Commercial Paper and Bank Notes not to exceed 50% of the Pool assets.  | Must carry highest ratings of any two nationally recognized rating agencies.   | Up to 180 days   |
| <b>Certificates of Deposit</b>                   | 25% | 2.5% of portfolio; must be a public depository in the State of Washington<br><br>Maximum 5% per issuer applied across investment type. When combined with Banker’s Acceptance, Term Repos (greater than 7 days), Commercial Paper and Bank Notes not to exceed 50% of the Pool assets.  | See RCW 39.58 of the state Code; 100% collateralization: Moody’s P-3. S&P A-3 or Fitch F-3 or better, and a Safe & Sound Star rating of 3 or better. No new deposits will be placed with institutions that are on credit watch or predictive indicator “negative”. Those institutions not meeting the minimum credit requirements may receive deposits up to the FDIC or federally guaranteed amounts.   | Up to 1 year     |

|   |     |   |   |   |
|---|-----|---|---|---|
| <b>Commercial Paper</b>                   | 25% | 2.5% of portfolio; secondary market purchases only<br><br>Maximum 5% per issuer applied across investment type.<br>When combined with Banker's Acceptance, Certificates of Deposit, Term Repos (greater than 7 days) and Bank Notes not to exceed 50% of the Pool assets. | Must carry highest ratings of any two nationally recognized rating agencies at time of purchase. Purchases with greater than 100 days maturity must have an issuer long-term rating of one of the two highest credit ratings of a nationally recognized rating agency. State law requires that Commercial Paper be purchased only from dealers. | 180 days                                |
| <b>General Obligation Municipal Bonds</b> | 20% | 2.5% of portfolio: bond issues by pool participants must be purchased on the secondary market only  | At time of purchase, bond must have one of the three highest credit ratings of a nationally recognized credit rating agency   | 5 years                                 |
| <b>Mortgage-Backed Securities</b>         | 25% | Must be issued by Federal Agencies of the United States. Investments in MBS will count toward the total that can be invested on any one agency as described in U.S. Agencies above.   | Must pass the Federal Financial Institutions Examination Council ("FFIEC") suitability test, which banks use to determine lowest risk securities. If rated by Fitch, must have rating between V1 and V5   | 5 year average life at time of purchase |
| <b>Bank Corporate Notes</b>               | 20% | 2.5% of portfolio<br><br>Maximum 5% per issuer applied across investment type.<br>When combined with Banker's Acceptance, Certificates of Deposit, Commercial Paper and Term Repos (greater than 7 days) not to exceed 50% of the Pool assets.                            | Bonds must be rated "A" or better by two nationally recognized rating agencies or guaranteed by an agency of the federal government   | 5 years                                 |

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**SCHEDULE II**

**REPURCHASE AGREEMENTS**

The Finance and Business Operations Division makes regular use of repurchase agreements (repos) to meet the investment needs of the Pool. Such transactions are governed by a Master Repurchase Agreement. The following policies have been approved for the use of repurchase agreements:

1. Repurchase agreement counterparties will be limited to (i) primary government securities dealers who report daily to the Federal Reserve Bank of New York or (ii) banks, savings and loan associations or diversified securities broker-dealers subject to regulation of capital standards by any state or federal regulatory agency. Counterparties must have:
  - a) short-term credit ratings of at least A-1/P-1/F1 from at least two rating agencies; and
  - b) a minimum asset and capital size of \$25 billion in assets and \$350 million in capital.

*Firms rated A-1, P-1, or F1 on short-term credit watch "negative" will only be eligible for overnight maturities. Firms with short-term split ratings (e.g., A-2/P-1/F1) will not be acceptable as counterparties.*

2. All securities used in deliverable repurchase transactions will be delivered to King County's safekeeping bank. All securities used in a tri-party repurchase agreement must be delivered to a tri-party safekeeping account. A tri-party agreement is required to be signed by all participating parties. Tri-party custodians are required to provide the County with evidence of collateral ownership.
3. Securities used in tri-party repurchase agreements must have a market value equal to at least 102% of repurchase price, plus accrued interest. Tri-party custodians are required to mark collateral to market and rebalance accounts daily. For deliverable repurchase agreements with terms from 1 to 30 days, the market value of the collateral must equal at least 102% of the repurchase price, plus accrued interest. 105% collateralization is required for terms 31 to 60 days.
4. Repurchase agreements have a maximum term of 60 days.
5. All participating dealers are required to sign a SIFMA Master Repurchase Agreement.
6. Collateral for repurchase agreements will be limited to U.S. Treasury and U.S. Agency securities.

### **REVERSE REPURCHASE AGREEMENTS:**

A reverse repurchase agreement (“reverse”) is an investment transaction in which securities in King County’s portfolio are sold and an agreement is made to buy back the securities at a later date. This agreement discloses a repurchase price, which would include a specified interest rate that is applied against the original proceeds. Although reverses can be used as a borrowing mechanism, the proceeds are generally reinvested in another instrument to a date similar to the maturity of the reverse. The new instrument provides a greater rate of return than the rate paid on the reverse.

### **LIMITATIONS ON USE**

1. King County will not use reverses to borrow funds for any purpose.
2. King County will use only reverses that are “match book” transactions. A match book means that the maturity date of the acquired security is identical to the end date of the reverse.
3. King County will enter into reverses only with firms with which they have adopted a master repurchase agreement. (see below)
4. King County will not enter into a reverse repurchase agreement for periods exceeding six months.
5. King County will not reverse more than 20% of the total balance of the Investment Pool at any one time.

### **MASTER REPURCHASE AGREEMENT:**

A master repurchase agreement contract which defines the responsibilities of both parties has been developed by King County. The County requires all firms to sign the agreement before being allowed to do repos/reverses with the County.

### **PROCEDURES:**

King County makes available through Bloomberg a listing of its portfolio to firms authorized to do business with the County. These firms periodically review the portfolio for reverse opportunities. Investment firms show reverse rates to the County that are either at their standard posted rate or at “special” rates which are significantly lower in order to fill a need for a specific security.

The proceeds from the reverse are invested to a date identical to the end of the reverse. The security purchased is acquired the same way other securities are obtained by soliciting offers and accepting the best. King County is not obligated to buy the new security from the same firm with which the reverse is placed.

Ordinarily, the County will reserve the right to substitute similar securities during the life of the reverse. This allows maximum flexibility for the Investment Officer should another opportunity occur.

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**SCHEDULE III**

**POLICY CRITERIA FOR INVESTMENTS IN CERTIFICATES OF DEPOSIT**

Certificates of Deposit (CD's) can be placed only with institutions that are public depositories in the State of Washington. RCW 39.58 governs public depositories and provides that, "All public funds deposited in public depositories, including investment deposits and accrued interest thereon, shall be protected against loss, as provided in the chapter".

**POLICY ON EARLY REDEMPTION IN THE EVENT OF FAILURE:**

Because of deposit protection regulations, risk of loss of principal is minimal for investment deposits in a bank or thrift institution. However, in a bank failure, assets of an institution may be frozen while regulatory authorities ascertain account balances and liabilities. If a CD matures during that time, cash flow problems may result or the opportunity to reinvest those funds may be lost.

If a bank or thrift institution should fail, or the EFC has reason to believe it may fail, King County may withdraw a CD prematurely. If the early redemption results in any loss of principal or interest, the redemption must have the approval of the Treasury Manager or his designee.

**POLICY ON BANK AND THRIFT CREDIT EVALUATION:**

King County establishes deposit limitations beyond those provided by RCW 39.58, for all financial institutions with which deposits are placed, based upon a financial analysis of those institutions.

The Finance Division obtains the most current rating by Moody's, S&P and Fitch from Bloomberg and the quarterly rating provided by Bankrate.com.

**LIMITATIONS**

RCW 39.58 provides that the deposits of a municipal body cannot exceed the net worth of an institution.

The County further limits deposits to institutions with a short-term investment grade rating of Moody's P-3, S & P A-3 or Fitch F-3 or better, and a Safe & Sound Star rating of 3 or better.

Those institutions not meeting the minimum credit requirements may receive deposits up to the FDIC or federally guaranteed amounts.

No new deposits will be placed with institutions that are on credit watch "negative" by Moody's, S & P or Fitch, or Safe & Sound's predictive indicator is negative.

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**SCHEDULE IV**

**BROKER/DEALER SELECTION POLICY**

**AUTHORIZED BROKER/DEALERS:**

The Finance and Business Operations Division will maintain an Authorized Broker/Dealer call list of firms that have established relations with the County. Whenever possible, this list will contain the names of a minimum of 6 repurchase agreement counterparties and 4 commercial paper dealers.

All broker/dealers that wish to be considered for addition to the established Authorized Broker/Dealer List must meet the following minimum requirements:

1. Confirm that they are a member of the Financial Industry Regulatory Authority (FINRA), registered with the Securities & Exchange Commission (SEC), and be registered with the Securities Division of the Washington State Department of Financial Institutions.
2. Be of high integrity and assign personnel to King County's account of equally high integrity. This is crucial to King County's intent is to enter into a long-term relationship.
3. Acknowledge receipt of King County's written Statement of Investment Policy.
4. Sell all securities subject to delivery at King County's custodial banks. With the exception of collateral calls on repurchase agreements, all transactions are to be conducted on a delivery vs. payment (DVP) basis.
5. Demonstrate they have been in operation at least five (5) years.
6. Must be either on the Primary Government Securities Dealers list published by the Federal Reserve Bank of New York or be a non-primary broker/dealer with a minimum of \$175 million of regulatory capital.
7. All firms with whom the County does business must have adequate financial strength which will be assessed by a review of the firm's financial statements and other factors, as determined by the County.
8. Broker/Dealers may also provide related services that are considered optional, including:
  - a. An active secondary market for its securities (provided that this would be a required service for commercial paper broker/dealers).

- b. Internal credit research analysis on commercial paper, bankers' acceptances and other securities it offers for sale.
- c. Be willing to purchase securities from King County's portfolio.
- d. Be capable of providing market analysis, economic projections, and newsletters.

**REGISTERED REPRESENTATIVE EXPERIENCE REQUIREMENTS FOR ADDITION TO AUTHORIZED BROKER/DEALER POOL LIST:**

In order to be considered the registered representative of the firm must be registered with the Securities Division of the Washington State Department of Financial Institutions and meet at least one of the following minimum requirements:

1. Have six years experience as an institutional fixed income registered representative.
2. Have five years experience as a fixed income trader, or portfolio manager with at least one year of experience as an institutional fixed income registered representative.
3. Have one year of experience as an institutional fixed income registered representative and holds the Chartered Financial Analyst designation.

**APPLICATION PROCESS:**

A securities firm and registered representative that meets the above criteria can contact the King County Finance and Business Operations Division regarding inclusion on King County's waiting list. Contact should be made with: Cash Management Supervisor at (206) 296-7313 or Investment Officer at (206) 296-7311, or in writing to 613A King County Administration Building, 500 4th Avenue, Seattle, WA 98104. If the firm meets the minimum requirements they will be forwarded a copy of this policy and King County's master repurchase agreement, if appropriate.

Each firm will be required to submit a copy of their latest financial report, a completed copy of King County's dealer questionnaire and certification, the resumes of the persons who will cover King County's account, delivery instructions, an organization tree that shows all the parent and subsidiary relationships and ownership percentages, and any other pertinent information necessary to conduct business. Those firms that meet the eligibility requirements to be are purchase agreement counterparty must also submit 3 signed copies of King County's master repurchase agreement. Firms that request more than minor changes in King County's master repurchase agreement may experience delays in their approval.

**EVALUATION PERIOD:**

Depending on need, the County may hold two six-month new dealer evaluation periods during the year: These evaluation periods will normally be from January 1 to June 30 and July 1 to December 31

To be eligible to be selected to participate in the evaluation period, each new firm must submit all the information required by this policy three months before the start of the evaluation period. The County will review the material submitted and evaluate each firm versus King County's needs. Firms that are selected to participate in an evaluation period will be notified shortly before the beginning of the period, and the County will furnish the firm with an executed trading authorization and delivery instructions. Firms that meet the minimum requirements, but miss the deadline or are not selected for the upcoming evaluation period, may be considered for the following evaluation period. A firm may be dropped prior to the completion of the six month period, if the County determines that continuing the relationship is not in its best interest.

**FIRM SELECTION**

Both the firm representatives will be evaluated on the material they submit prior to an evaluation period. Firms will be rated by their product offerings, electronic inventory delivery systems, financial strength, reputation, and research products. Registered representatives will be evaluated on their experience, product knowledge, references, professionalism, and communication skills. Equal weighting will be given to the firm and the registered representatives. All else being equal, firms with institutional fixed income sale offices in King County may be given preference.

**ADDITION TO PRIMARY CALL LIST:**

Firms that demonstrate that they can add value to King County's investment program during the evaluation period will be added to the primary call list. Each firm will be reviewed with respect to its market analysis, knowledge and understanding of King County's investment program, and the professional conduct demonstrated by their personnel. Generally, a firm must have demonstrated during the evaluation period that it is handling at least 5% of King County's investment transactions, or provided other valuable services that other firms on the authorized Broker/Dealer list are not providing.

Even if a firm does more than 5% of the investment transactions, it may not be added to the list if, in King County's opinion, the registered representatives utilize over aggressive sales techniques, are difficult to work with, are not considerate of the investment staff's time, recommend securities not authorized by this policy or are untrustworthy.

**REVIEW PROCESS:**

Semi-annually, Treasury Operations staff will prepare for the EFC a report reviewing each Broker/Dealer's current financial condition over the prior period. The report will show how new firms performed during the evaluation period and indicate whether they were added to the permanent call list. Any other changes to the call list will be shown.

**DELETION FROM PRIMARY CALL LIST:**

Firms may be dropped from the Authorized Broker/Dealer List when they have been unable to achieve 5% of King County's business during a six-month period. The determination of whether to drop a firm will also be based on King County's long-term experience with the firm, and whether the drop in business is due to temporary conditions. The firm may also be retained on the list if it provides other valuable services such as unique research or pricing on difficult-to-price securities. If the County determines that it would be better served by retaining the firm, but changing the registered representative that is covering the County, the County may request that King County's account be switched to another registered representative.

KING COUNTY FINANCE DIVISION

DEALER QUESTIONNAIRE

1. Name of Firm
2. Address Regional/local National offices
3. Telephone number ( ) Regional/Local  
( ) National Headquarters
4. Primary representative/manager/partner-in-charge  

|                   |                   |
|-------------------|-------------------|
| Name              | Name              |
| Title             | Title             |
| Telephone No. ( ) | Telephone No. ( ) |
| Fax No. ( )       | Fax No. ( )       |
5. Are you a primary dealer in U.S. Government securities?  
 Yes  No
6. If so, for how long has your firm been a primary dealer? \_\_\_\_\_ years
7. What was your firm's total volume in U.S. Government and agency securities trading last year?  

|                               |                        |
|-------------------------------|------------------------|
| Firm-wide \$                  | Number of Transactions |
| Your local/regional office \$ | Number of Transactions |
8. Which instruments are offered regularly by your local/regional desk?  

|   |  |
|---|--|
| <input type="checkbox"/> T-bills<br><input type="checkbox"/> Treasury notes/bonds<br><input type="checkbox"/> Agencies (specify)<br><input type="checkbox"/> Bank-issued corporate debt<br><input type="checkbox"/> Other Instruments<br>(list below)<br>_____<br>_____<br>_____<br>_____ | <input type="checkbox"/> Taxable Municipals<br><input type="checkbox"/> Bankers Acceptances (BAs)<br><input type="checkbox"/> Term Treasury or Agency<br>repurchase agreement<br><input type="checkbox"/> Commercial Paper<br><br><input type="checkbox"/> Agency Mortgage-backed CMOs |
|---|--|
9. Identify all personnel who will be trading with or quoting securities to the King County Finance Division.  
( )  
( )  
( )  
( )  
( )  
( )  
( )
10. Which of the above personnel have read King County's investment policies?

11. Indicate which of the above agents of your firm's local/regional offices currently are licensed, certified or registered, and by whom.

Agent

Licensed or registered by

12. Identify your public-sector clients in our geographical area who are most comparable to King County's.

Entity

Contact Person

Telephone No.

Client since

( )  
( )  
( )

13. Has your firm ever been subject to a regulatory or state or federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of government securities or money market instruments? Have any of your employees ever been so investigated? Explain.

14. Has a public-sector client ever claimed that your firm was responsible for investment losses? Explain.

15. Include samples of research reports that your firm regularly provides to public-sector clients.

16. Explain your normal custody and delivery process. Who audits these fiduciary systems?

17. Provide certified financial statements and other indicators regarding your firm's capitalization.

18. Describe the capital line and trading limits that support/limit the office that would conduct business with our government.
19. What training would you provide to our employees and investment officers?
20. Has your firm consistently complied with the Federal Reserve Bank's capital adequacy guidelines? As of this date, does your firm comply with the guidelines? Has your capital position ever fallen short? By what factor (1.5x, 2x, etc.) does your firm presently exceed the capital adequacy guidelines? Include certified documentation of your capital adequacy as measured by the Federal Reserve standards.
21. Do you participate in the Securities Investor Protection Corporation (SIPC) insurance program? If not, explain why not.
22. What portfolio information do you require from your clients?
23. What reports, transactions, confirmations and paper trail will we receive?
24. How many and what percentage of your transactions failed last month? Last year?
25. Does your firm list its inventory on Bloomberg's BOOM and Bloomberg Bond Trader (BBT) screens?
26. Does your firm list inventory on Tradeweb? If so, which products are listed there?
27. If your firm is a subsidiary, please describe any written financial guarantees that your parent has entered into that provide financial support to your organization.
28. Describe the precautions taken by your firm to protect the interests of the public when dealing with governmental agencies as investors.

## CERTIFICATION

I hereby certify that I have personally read the investment policies and objectives of King County and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and King County. All Sales personnel assigned to your account will be routinely informed of your investment objectives, horizon, outlook, strategies and risk constraints whenever we are so advised. We will notify you immediately by telephone and in writing in the event of a material adverse change in our financial condition. We pledge to exercise due diligence in informing you of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

Signed: \_\_\_\_\_ Title: \_\_\_\_\_

Date: \_\_\_\_\_

**FINANCE AND BUSINESS OPERATIONS DIVISION  
KING COUNTY  
STATEMENT OF INVESTMENT POLICY**

**SCHEDULE V**

**POLICY STATEMENT ON CREDIT REVIEW PROCESS FOR COUNTY INVESTMENT  
POOL INVESTMENTS**

**SCOPE OF POLICY STATEMENT:**

The Finance and Business Operations Division makes extensive use of investments in the Pool to meet the investment needs of the pool. The following policies have been adopted for the review of all investments prior to their purchase by the County.

For purposes of this policy statement, investments are those that do not have either the explicit backing of the full faith and credit of the U.S. government or are issued by one of the following U.S. government-sponsored agencies that have the implicit backing of the U.S. government and carry the highest short term or long term credit ratings, as applicable:

- FFCB – Federal Farm Credit Bank System
- FNMA – Fannie Mae
- FHLMC – Freddie Mac
- FHLB – Federal Home Loan Bank System

The Local Government Investment Pool (LGIP) managed by the Washington State Treasurer's office is also excluded from the prior review requirements of this policy.

**APPROVED CREDIT LIST:**

The County will develop and maintain an approved credit list to manage King County's exposure to issuers that present some element of credit risk. This list assists the County in determining a prudent credit profile amongst its holdings. Those authorized to execute transactions on behalf of the County are restricted to purchases from those issuers on the approved list.

The approved credit list is segregated into short-term and long-term sections since an approved issuer may be appropriate for short-term investments but not for longer term investments. The approved credit list contains the name of the issuer and the type of security for which it has been approved.

The number of issuers included is dependent on King County's needs and abilities to effectively research, approve, and monitor the issuers. Staff will gather information about issuers it would like to consider for inclusion on the approved credit list. Information required includes such materials as quarterly and annual reports, rating agency and broker reports, news releases and events related to the general economic

environment. A credit oversight committee will make a recommendation on each issuer and submit the credit list to the EFC for approval.

The initial approved credit list shall be approved within six months of the adoption of these policies.

**CREDIT OVERSIGHT COMMITTEE (COC):**

The County will establish a credit oversight committee that will be responsible for monitoring the approved credit list and recommending changes to it. Changes could include the addition, deletion or suspension of certain issuers. Ideally the COC would meet to discuss major events in the credit and other markets and discuss any potential actions necessary. The COC members include the King County Treasury Manager, Cash Management Supervisor, Investment Officer, the County's Senior Debt Analyst, and the County's Chief Economist.

In the case of vacancies, the acting representative in the position will replace the COC member. Meetings are held at least monthly or as conditions in the market warrant. This can only be done with a recommendation from the Committee. The Committee takes action through consensus of its members and its actions are reported in meeting minutes. For each issuer, the Committee requires an annual review and completes a formal written review. Information is included in the annual report to the EFC. Throughout the year investment staff is required to monitor and report to the Committee on earnings releases and other information. In addition, the County employs Bloomberg based monitoring of each issuer to immediately detect any rating actions or developing events. Committee members may attend educational events sponsored by broker/dealers or rating agencies to keep abreast of market developments.

The initial COC shall be established within three months of the adoption of these policies.

**USE OF EXTERNAL ADVISORS:**

The County may employ external data providers or advisors to aid in the credit research and review process. The primary responsibility for the credit review process would remain with the County, but it may seek to supplement its resources through the services of external parties. Services to be sought externally could include, but would not be limited to, providing advice on credit review procedures and framework, providing advice on changes in the credit profile of particular industries and/or sectors, monitoring the credits held by the County and alerting the County to any developments with those or similar credits, and researching specific credit issues or issuers.

**FINANCE AND BUSINESS OPERATIONS DIVISION  
KING COUNTY  
STATEMENT OF INVESTMENT POLICY**

**SCHEDULE VI**

**Impaired Investment Policy**

**1.0 Purpose**

1.1 This policy is adopted by King County's EFC to address the treatment of impaired investments, as defined in Section 2.0, consistently with applicable law and the terms of the investment agreements with pool members. The policy addresses how to provide fair and equitable treatment of pool members' interests in the event one or more of the pool investments becomes impaired.

1.2 The policy specifically addresses situations involving pool members who are completely withdrawing from the pool or who are removing substantial funds from the pool prior to the distribution of any realized loss.

**2.0 Definitions**

2.1 Impaired Investment: An investment is deemed to be "impaired" when: (a) its credit quality is rated below investment grade by Standard & Poor's, Moody's and/or Fitch; (b) a default has occurred on payment at maturity; or (c) an enforcement event, as defined in the investment's program documents, has occurred. An impaired investment is also referred to as "distressed."

2.2 Unrealized Loss: A loss calculated using the fair value of the investment, but which has not been realized through a transaction such as the sale of a security. It is also referred to as a "paper loss." An unrealized loss is not distributed to pool members.

2.3 Realized Loss: A loss that is recognized when investments are sold for a price lower than the carrying value or it is determined that the investment has no value and therefore it is not possible to sell the security at any price. This loss is distributed to pool members.

2.4 Fair Value: This is the amount at which an investment is being exchanged in a current transaction between willing parties. In conditions where market pricing is not available, other generally recognized valuation methodologies may be used.

2.5 Par Value: This refers to the nominal or face value of a security. The par value is the amount the issuer is obligated to pay the investor when the security matures.

### **3.0 Goals**

The policy is intended to serve the following goals among others:

3.1 Seek Options to Recover Principal: The pool will first seek options that allow for the recovery of the principal value of the impaired investment over time, thereby avoiding a realized loss. Any selected option must be justified in terms of risk, cost/benefit, and legal soundness.

3.2 Distribute Any Realized Loss Fairly and Equitably: If a loss must be realized, the loss will be distributed in a manner that is fair and equitable to pool members, as set forth in this policy.

3.3 Protect New Monies Entering Pool: The pool will seek to isolate a realized loss impact in such a way that new monies entering the pool after an investment is deemed impaired will not be factored into the calculation and distribution of the realized loss.

3.4 Prevent a Run on the Pool: The County will not allow members to exit the pool or remove substantial balances from the pool in order to avoid loss exposure, thereby undermining the confidence of remaining pool members. The County will ensure that those pool members completely exiting the pool or withdrawing substantial funds from the pool are required to leave sufficient funds in the pool to offset the maximum potential future realized loss on any investment that is impaired at the time of withdrawal or exit.

### **4.0 Distributing a Realized Loss—Holding Period Method**

4.1 A realized loss will be apportioned based on each pool members' average cash balance from the time the impaired investment was acquired through the date the investment is deemed impaired. This is referred to as the "holding period" for the impaired investment.

4.1.1 Example: An impaired commercial paper investment acquired on April 18, 2007 enters into an accelerated enforcement event on October 17, 2007. If the total realized loss to the pool is \$10 million and a pool member has an average cash balance equal to 1 percent of the pool during this time period, then the pool member is apportioned \$100,000 for the loss.

4.2 This treatment of losses protects new monies which enter the pool after the date an investment is deemed impaired from being exposed to a realized loss associated with an impaired investment.

4.2.1 Example: If a pool member had a \$50 million bond issue that was placed in the pool after the date an investment is deemed impaired, then this new \$50 million would not be part of the member's average cash balance during the designated holding period for the purpose of calculating their share of the realized loss.

## **5.0 Pool Members Exiting Pool Prior To Realized Loss Distribution**

5.1 Members who request a complete withdrawal of funds from the pool prior to a realized loss must first ensure that their request is consistent with their signed investment agreement, including prior notification requirements.

5.2 Retainage for Loss Coverage: The County will require the exiting pool member to retain sufficient funds in the pool to cover any future realized loss on an impaired investment. The County will calculate the pool member's pro rata share of an estimated 100 percent loss of the par value of the impaired investment using the holding period method set forth in section 4.0. This amount will be deducted from the requested withdrawal of funds and will be retained by the pool until such time that the pool recovers the full par value of the investment or distributes a realized loss. If a realized loss is less than the amount being retained by the pool to cover losses, this difference will be reimbursed to the exiting pool member at the time the realized loss is allocated to pool members.

5.2.1 Example: A pool member requests the withdrawal of \$10 million on the anniversary date of their pool agreement and provides proper advance notice. The pool member has an average cash balance equal to 1 percent of the total pool assets during a defined holding period for an impaired investment. The par value on the impaired investment is \$50 million. The amount retained by the pool to cover any loss is \$500,000 (1 percent x \$50 million). Therefore, the net withdrawal payment is \$9.5 million (\$10 million - \$500,000 retained for loss coverage). Of the \$500,000 retained by the pool, all or a portion of this amount will be returned to the exiting pool member depending on whether the full par value is eventually repaid to the pool.

5.3 If the County is issued a new security (or securities) as part of a restructuring solution for an impaired investment, then the full retainage amount will be returned to the pool member upon the full maturity payment of the new security (or securities). Also, if a restructuring solution results in periodic cash flow payments or the partial repayment of the par value of an impaired investment, these payments will be distributed to pool members.

5.4 Pool members will continue to receive interest earnings, as set forth in their investment agreements, on the amount of their retainage for loss coverage.

## **6.0 Pool Members Removing Substantial Funds Prior To Realized Loss Distribution**

6.1 Members who request withdrawals of their cash balances must make the request consistent with their signed investment agreement, including prior notification requirements.

6.2 Retainage for Loss Coverage: Prior to approving the request, the County will calculate the amount of funds that must be retained in the pool to cover the pool

member's share of any future realized loss on an impaired investment. The retainage for loss coverage will be calculated and applied in the same manner as Section 5.0.

## **7.0 Accounting and Financial Reporting for Impaired Investments**

7.1 The Governmental Accounting Standards Board (GASB) promulgates accounting guidance. GASB 31 Accounting and Financial Reporting for Certain Investments and for External Investment Pools, provides guidance for investment accounting. Additionally, GASB also provides guidance through questions and answers in its annual comprehensive implementation guides.

7.2 In accordance with GASB 31, the investments in the County investment pool are reported in the King County's year-end financial statements at fair value. That valuation takes into account any impaired investments.

7.3 If fair value is not determined by quoted market prices, the GASB Implementation Guideline suggests the security's value be estimated. This estimate calculation requires professional judgment and use of valuation techniques. In these cases, the County will obtain an estimate of the fair value from an investment bank of high reputation and solvency.

7.4 All investment income, including changes in the fair value of investments is recognized as revenue in the King County's statement of activities. Negative investment income is reported as negative revenue.

7.5 GASB 31 does not mandate the manner, frequency or method of the distribution of investment earnings. The County, as the pool sponsor, determines the distribution methodology.

7.5.1 Based on longstanding past practice, the county only distributes realized gains and losses to pool members. The County does not distribute unrealized gains or losses on its investments.

## **8 Period of Applicability**

8.1 This policy reflects applicable statutes, GASB 31 and standard accounting practices, the terms of the agreements with pool members and the actual practices that have been followed in the past management of the pool and therefore applies to all withdrawals, exits, or other events that fall within its subject matter scope.

**FINANCE AND BUSINESS OPERATIONS DIVISION  
KING COUNTY  
STATEMENT OF INVESTMENT POLICY**

**SCHEDULE VII**

**POLICY STATEMENT ON INTERLOCAL AGREEMENTS OF POOL MEMBERS**

It is King County's policy that all members of the Pool will have signed the Pool Agreement. A copy of the current form of the Agreement is posted on the County's web site at the following link:

<http://www.kingcounty.gov/operations/Finance/Treasury/InvestmentPool.aspx>

## **GLOSSARY OF TERMS**

**ACCRUED INTEREST** – Interest that has accumulated but has not yet been paid from the most recent interest payment date or issue date to a certain date.

**AGENCY ISSUES** – Securities issued by federal agencies, those chartered by the federal government or Government Sponsored Enterprises that are considered to be backed by the federal government. See also Government Sponsored Enterprises.

**AMORTIZED COST** – The original cost of the principal adjusted for the periodic reduction of any discount or premium from the purchase date until a specific date (also called “Book Value”).

**ASSET-BACKED COMMERCIAL PAPER (ABCP)** is a form of commercial paper that is collateralized by other financial assets. ABCPs are typically short-term investments and are typically issued by a bank or other financial institution

**BANKERS ACCEPTANCE** – Money market instrument created from transactions involving foreign trade. In its simplest and most traditional form, a bankers’ acceptance is merely a check, drawn on a bank by an importer or exporter of goods.

**BASIS POINT** – A unit of measurement equal to 1/100 of 1 percent. As an example, the difference between a security yielding 3.25% and one yielding 3.20% is five basis points.

**BENCHMARK** – An index or security used to compare the performance of a portfolio.

**BOND** – A long-term debt instrument of a government or corporation promising payment of the original investment plus interest by a specified future date.

**BULLET** – A colloquial term for a bond that cannot be redeemed, or called, prior to maturity.

**CALLABLE BOND** – A bond in which all or a portion of its outstanding principal may be redeemed prior to maturity by the issuer under specified conditions.

**COLLATERALIZATION** – Process by which a borrower pledges securities, property or other deposits for the purpose of securing the repayment of a loan and/or security.

**COLLATERALIZED CERTIFICATE OF DEPOSIT** – An instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is collateralized by the bank with securities.

**COMMERCIAL PAPER** – Money Market instrument representing an unsecured short-term promissory note of a corporation at a specified rate of return for a specified period of time.

**COUPON** – The stated interest rate on a debt security that an issuer promises to pay.

**CUSTODIAN BANK** – A specialized financial institution responsible for safeguarding a firm's or individual's financial assets and is not likely to engage in "traditional" commercial or consumer/retail banking.

**CREDIT QUALITY** – An indication of risk that an issuer of a security will fulfill its obligation, as rated by a rating agency.

**CREDIT RATING** – A standardized assessment, expressed in alphanumeric characters, of a company's creditworthiness.

**CREDIT RISK** – The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

**CUSIP** – A unique identifier for a security developed by the Committee on Uniform Security Identification Procedures (CUSIP). The identifier is a nine-digit alphanumeric character. The first six characters identify the issuer, the following two identify the issue, and the final character is a check digit.

**DERIVATIVES** – Securities which derive their value from that of another security or an underlying index, currency or other measure. Floating rate notes (also "floaters") are not considered derivatives.

**DISCOUNT INSTRUMENTS** – Securities that are sold at a discount to face value.

**DIVERSIFICATION** – The practice or concept of investing in a range of securities by sector, maturity, asset class or credit quality in order to reduce and spread financial risk.

**DOLLAR WEIGHTED AVERAGE MATURITY** – The sum of the amount of each security investment multiplied by the number of days to maturity, divided by the total amount of security investments.

**DURATION** – Is a measure of the price volatility of a portfolio and reflects an estimate of the projected increase or decrease in the value of that portfolio based upon a decrease or increase in the interest rates. A duration of 1.0 means that for every one percent increase in interest rates, the market value of the Portfolio would decrease by 1.0 percent.

**EFFECTIVE DURATION** - A duration calculation for bonds that incorporates the impact of any embedded options in the bond. For Bonds with embedded options (callable, puttable, etc) effective duration provides a more accurate measure of a bond's price movement when interest change because it takes into account changes in the bond's cash flow that are related to the embedded options.

**GOVERNMENT OBLIGATIONS** – Securities issued by the U.S. Treasury and Federal Agencies. U.S. Treasuries are direct obligations of the Federal Government. Agencies

are not direct obligations of the Federal Government, but involve Federal sponsorship or guarantees.

GOVERNMENT SPONSORED ENTERPRISES (GSE'S) – Private, shareholder-owned companies with a relationship with government agencies. These agencies generally are viewed to have an implied guarantee of the U.S. government. These include:

- Federal National Mortgage Association (FNMA)
- Federal Home Loan Bank (FHLB)
- Federal Farm Credit Bank (FFCB)
- Federal Home Loan Mortgage Corporation (FHLMC)

HIGHLY LIQUID – The most eminent type of security that is easily converted to cash because there are many interested buyers and sellers to trade large quantities at a reasonable price.

ILLIQUID – A security that is difficult to buy or sell or has a wide spread between the bid price and offer price in the secondary market. There are few buyers and sellers willing to trade large quantities at a reasonable price.

INTEREST RATE RISK – The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value. Also called “Market Risk”.

INVERSE FLOATERS – Floating rate notes which pay interest in inverse relationship to an underlying index.

LIQUID – A security that is easily bought and sold because of the willingness of interested buyers and sellers to trade large quantities at a reasonable price.

LONG-TERM – The term used to describe a security when the maturity is greater than one year.

MARKET VALUE – An estimate of the value of a security at which the principal would be sold from a willing seller to a willing buyer at the date of pricing.

MASTER REPURCHASE AGREEMENT – A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establish each party's rights in the transactions.

MEDIUM TERM NOTES – These are Corporate Notes and Bank Notes that are debt obligations of banks, corporations, and insurance companies. They are issued at a specific rate of return for a specific period of time.

MONEY MARKET MUTUAL FUND – A mutual fund with investments directed in short-term money market instruments only, which can be withdrawn daily without penalty.

**NEGOTIABLE CERTIFICATE OF DEPOSIT** – A Money Market instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is traded in secondary markets.

**PAR** – The stated maturity value, or face value, of a security.

**PASS-THROUGH SECURITIES** – A debt instrument that reflects an interest in a mortgage pool, consumer receivables pool and equipment lease-backed pool that serves as collateral for a bond.

**POOL** – In this context, the pooled monies of different government agencies administered by the Pool.

**PORTFOLIO VALUE** – The total book value amount of all the securities held in the Pool.

**PRIMARY DEALER** – A group of dealers and banks that can buy and sell securities directly with the Federal Reserve Bank of New York.

**PRIVATE PLACEMENTS** – Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors.

**RANGE NOTES** – Notes which pay interest only if the underlying index upon which it is benchmarked, falls within a certain range.

**REPURCHASE AGREEMENT** – A repurchase agreement consists of two simultaneous transactions. One is the purchase of securities by an investor (i.e., the County), the other is the commitment by the seller (i.e. a broker/dealer) to repurchase the securities at the same price, plus interest, at some mutually agreed future date.

**REVERSE REPURCHASE AGREEMENT** – The mirror image of Repurchase Agreements. In this instance the King County Pool is the seller of securities to an investor (i.e. brokers).

**SAFEKEEPING** – A custodian bank's action to store and protect an investor's securities by segregating and identifying the securities.

**SECONDARY MARKET** – The secondary market, also known as the aftermarket, is the financial market where previously issued securities and financial instruments are bought and sold.

**SHORT-TERM** – The term used to describe a security when the maturity is one year or less.

**TOTAL RETURN** – The sum of all investment income plus changes in the capital value of a portfolio for a given period.

**WEIGHTED AVERAGE MATURITY** – The remaining average maturity of all securities held in a portfolio. See Dollar Weighted Average Maturity.

**WHEN-ISSUED SECURITIES** – A security traded before it receives final trading authorization with the investor receiving the certificate/security only after the final approval is granted.

**YIELD** – The gain, expressed as a percentage, which an investor derives from a financial asset.

**YIELD TO MATURITY** – The percentage rate of return paid if the security is held to its maturity date. The calculation is based on the coupon rate, length of time to maturity, and market price. It assumes that coupon interest paid over the life of the security is reinvested at the same rate.