Office of the Treasurer
State of Washington
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INVESTMENT POLICY
LOCAL GOVERNMENT INVESTMENT POOL

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OFFICE OF THE WASHINGTON STATE TREASURER

INVESTMENT POLICY

LOCAL GOVERNMENT INVESTMENT POOL

I. PURPOSE

The goal of this investment policy is to clearly prescribe the duties of the Office of the State Treasurer (OST) pertaining to the investment of the Local Government Investment Pool (LGIP) funds. This policy:

- Sets out guidelines for the prudent management of LGIP funds;
- Describes realistic parameters and goals for safely investing those LGIP funds;
- Establishes expectations for generally acceptable returns at a suitable level of risk that matches the nature of the LGIP funds invested; and
- Provides the framework within which the OST investment activity will operate by setting out objectives, guidelines and structure that includes details on the universe of permitted investments and any restrictions on their use.

The State Treasurer reserves the right to amend this policy as deemed necessary.

II. IDENTIFICATION OF FUNDS

This policy applies to all Funds on deposit with the Local Government Investment Pool (LGIP) as defined in the Revised Code of Washington (RCW) 43.250.020.

III. OBJECTIVES

The LGIP will transact with its participants at a stable net asset value per share, e.g., all contributions and will be transacted at $1.00 net asset value per share. The LGIP portfolio will be managed to meet the portfolio maturity, quality, diversification and liquidity requirements set forth in GASB 79 for external investment pools who wish to measure, for financial reporting purposes, all of its investments at amortized cost. The objectives of the OST investment practices for the LGIP, in priority order, will be: safety, liquidity, and return on investment.

1. Safety

Safety of principal is the primary objective of the State Treasurer. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To obtain this objective the OST portfolio manager will do the following:

- Limit the purchase of investments to securities that have a maximum final maturity of 397 days, with the exceptions listed in Section VII of this policy;
- Maintain a Weighted Average Maturity (WAM) of 60 days or shorter, as described in Section VII.3;
- Maintain a Weighted Average Life (WAL) of 120 days, as described in Section VII.3;
- Limit the purchase of investments in securities other than those issued by the U.S. government or its agencies; and
- Prepare regular reports of portfolio activity.

2. Liquidity

The investment portfolio will remain liquid to enable the OST to meet all cash requirements that might reasonably be anticipated. Therefore, the investments shall be managed to maintain a balance to meet daily obligations. Specifically:

- The OST will have an understanding of historical cash flow patterns to manage expectations.
- The OST will hold securities that can be converted to liquid cash to be incorporated in liquidity structure.

3. Return on Investment

The LGIP will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the pool.

IV. STANDARDS OF CARE

1. Delegation of Authority

The State Treasurer is an executive officer of the state, as established by the Constitution of the State of Washington (Article III, Section 1), and "will perform such duties as will be prescribed by law" (Article III, Section 19).

As prescribed by the Revised Code of Washington, "The legislature finds and declares that the public interest is found in providing maximum prudent investment of surplus funds, thereby reducing the need for additional taxation. The legislature also recognizes that not all political subdivisions are able to maximize the return on their temporary surplus funds. The legislature therefore provides in this chapter a mechanism whereby eligible governmental entities may, at their option, utilize the resources of the state treasurer's office to maximize the potential surplus funds while ensuring the safety of those funds" (RCW 43.250.010).

To "ensure effective cash management of public funds," (RCW 43.08.015) the State Treasurer deems it necessary to designate investment officers who have investment authority on behalf of OST ("Authorized Investment Officers").

2. Prudence

Authorized Investment Officers shall perform their investment duties in a manner consistent with this policy and the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital as defined by RCW 43.250.040.

Authorized Investment Officers acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for credit and market risks encountered in the performance of their investment duties. Due diligence requires timely reporting of material deviation from expectations and such other actions to control adverse developments as may be possible in consideration of the particular circumstances and within other provisions of this policy.

3. Ethics and Conflicts of Interest

The State Treasurer, Chief Operating Officer, and Authorized Investment Officers will conduct themselves in conformance with:

- Public Disclosure Act, Chapter 42.56 RCW;
- Ethics in Public Service Act, Chapter 42.52 RCW and section 292-110-010 Washington Administrative Code;
- Standards of Conduct for Executive Branch Employees, Executive Order 93-02; and,
- The State Treasurer will not accept campaign donations from corporate entities where the LGIP is invested.

V. CONTROLS

1. Safekeeping and Custody of Securities.

Prudent treasury management dictates that all purchased securities be bought on a delivery versus payment (DVP) basis and be held in safekeeping by an independent third-party financial institution. Deposits will only be made pursuant to Chapter 39.58 RCW.

The OST shall designate all safekeeping arrangements in writing and execute an agreement of the terms with a third-party custodian. The third-party custodian shall be required to provide a statement to the OST listing at a minimum each specific security, description, maturity date, market value, par value, purchase date, and CUSIP number.

2. Authorized Financial Dealers and Institutions.

The OST will maintain a list of broker/dealers and financial institutions authorized to provide investment services to the state. Authorized broker/dealers and financial institutions will be limited to those that meet one or more of the following:

- Financial institutions that are
  - Approved by the Washington Public Deposit Protection Commission (Chapter 39.58 RCW); or,

    - The custody provider to the state pursuant to RCW 39.58.080; or,
- Primary dealers recognized by the Federal Reserve Bank of New York; or,
- Non-primary dealers qualified under U.S. Securities and Exchange Commission Rule 15c3-1, the Uniform Net Capital Rule, and a certified member of the Financial Industry Regulatory Authority (FINRA).

Each authorized dealer or institution will make available annual reports, including audited financial statements, and other information as determined by the OST.

3. Competitive Transactions

It is the policy of the OST to transact securities purchases or sales through appropriately competitive processes. Electronic trading is the preferred option for the purchase and sale of investment instruments. Offers or bids for securities may be received from approved broker/dealers by the following means:

a. By phone
b. By e-mail or other electronic communication
c. Through electronic trading platform
d. From inventory listings supplied by approved broker/dealers.

4. Share Price Calculation

The current price per share, for purposes of distribution, redemption and repurchase, will be computed by use of the Amortized Cost Method. It is the intent to manage the portfolio to maintain a stable net asset value at $1.00. However, maintenance of a stable net asset value at 1.00 is not guaranteed.

5. Internal Controls

The OST will maintain internal controls to protect against the loss of public funds arising from negligence, theft or misuse that include, but are not limited to:

- Use of third party custody and safekeeping;
- Execution of all securities transactions on a DVP basis;
- Clear delegation of investment authority;
- Separation of transaction authority from record keeping;
- Use of objective criteria in selecting financial institutions and dealers authorized to provide investment services to the state; and
- Use of objective criteria in awarding investment purchases and sales to authorized financial institutions and dealers.

The Deputy Treasurer for Investments and Authorized Investment Officers will regularly review this policy and will recommend changes to the Chief Operating Officer and State Treasurer if needed.

Daily compliance reports, as well as monthly performance reports, will be provided to the State Treasurer and Chief Operating Officer.

6. External Controls

As prescribed by RCW 43.09.050, the state auditor will “audit the accounts” and “inspect the books” of the OST to determine the compliance of investment activities with state statutes and this policy. In addition, the LGIP will contract for an outside independent audit of LGIP financial statements.

The LGIP operates with a constant Net Asset Value (NAV) of $1.00. In accordance with GASB 79 the "shadow" NAV will be calculated at least monthly using fair values provided by the master custodian or by an independent pricing service under contract with the OST. Stress testing of the NAV under different interest rate and redemption scenarios will be done monthly. The "shadow" NAV calculations and results of stress testing will be reported monthly to the LGIP Advisory Committee.

This policy will be reviewed/revised at least annually. The State Treasurer will formally approve any changes to this policy after consultation with the LGIP Advisory Committee.

VI. ELIGIBLE AND SUITABLE INVESTMENTS

Eligible investments are only those securities and deposits authorized by statute. (Chapter 39.58 RCW and RCW 43.84.080) Eligible investments are limited to:

- Obligations of the U.S. government;
- Obligations of U.S. government agencies, or of corporations wholly owned by the U.S. government;
- Obligations of supranational institutions provided that, at the time of investment, the institution has the United States government as its largest shareholder;
- Obligations of government-sponsored corporations which are, or may become, eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve System; and
- Certificates of deposit or demand deposits with financial institutions made in accordance with the provisions of Chapter 39.58 RCW.

VII. INVESTMENT PARAMETERS

To provide for the safety and liquidity of LGIP funds, the investment portfolio will be subject to the restrictions listed below. These represent minimum investment restrictions under this formal investment policy and there may be separate guidelines containing additional, more restrictive limitations for certain investment instruments. All restrictions are based on a settlement date basis. The investments of cash collateral and securities accepted as collateral by a securities lending agent are subject to the restrictions and limits of sections VI and VII of this policy.

Maximum percentages for a particular issuer, investment type or liquidity constraints may on occasion be exceeded, e.g., due to fluctuations in fund balances. Securities need not be liquidated to realign the portfolio; however, consideration will be given to this matter when future purchases are made.

1. Liquidity

The fund will be structured to maintain a degree of liquidity sufficient to meet reasonably foreseeable redemption requests and reduce the likelihood that the fund will have to meet redemptions by selling portfolio securities into a declining market.

- 10% will be maintained in "daily liquid assets" that include: (i) cash; (ii) direct obligations of the US Government; (iii) demand deposits; (iv) overnight repurchase agreements; and (v) securities that mature the following business day.
- 30% of the portfolio will be maintained in "weekly liquid assets" that include: (i) cash; (ii) direct obligations of the US Government; (iii) Government Agency discount notes that have a remaining maturity of 60 days or less; and (iv) securities that will mature, or have a demand feature exercisable and payable within 5 business days.
- The fund will not acquire an illiquid investment if, after acquisition, the amount of illiquid investments in the portfolio would exceed 5 percent of its total assets. Certificates of deposit and repurchase agreements with final maturities beyond 5 business days, that are not subject to a demand feature that is exercisable and payable within 5 business days, are both considered to be illiquid investments.

2. Diversification and Percentage Limitations

Cash raised as a result of securities lending or reverse repurchase agreement transactions will not increase the dollar amount of the following limitations.

A. Government Securities

Investments in government securities will not exceed the following percentages of the total daily portfolio balance at amortized cost:

Floating and Variable Rate Notes (aggregate total)	30%
Other Structured Notes	10%

For the purposes of this policy the following definitions shall apply:

Floating Rate Note: Securities which at all times can reasonably be expected to have a fair value that approximates their amortized cost. This would include those who reset based on indices such as Fed Funds or the prime lending rate. Floating Rate Notes that reset based on any other index must be approved by either the State Treasurer or the Chief Operating Officer prior to purchase.

Variable Rate Notes: Securities which on any reset date can reasonably be expected to have a fair value that approximates their amortized cost. This would include those who reset based on indices such as SOFR or US Treasury Bills. Variable Rate Notes that reset based on any other index must be approved by either the State Treasurer or the Chief Operating Officer prior to purchase.

Other Structured Notes: All other debt securities whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend on one or more indices and which may have embedded forwards or options.

- Structured notes whose cash flows can no longer fluctuate will not count against the 10% limitation.

B. Non-government Securities

Investments in non-government securities will not exceed the following percentages of the total daily portfolio balance at amortized cost:

Certificates of Deposit	5%
Demand Deposit Accounts	50%

3. Investment Maturity

A. Maximum Final Maturity

The maximum final maturity of any security will not exceed 397 days, with the following exceptions:

- The maximum maturity of the variable rate and floating rate securities issued by US Treasury or Government Agencies, meeting the requirements listed above will not exceed 762 days.
- Securities utilized in repurchase agreements.

B. Weighted Average Maturity (WAM)

The weighted average maturity (WAM) of the portfolio will not exceed 60 days. For the purposes of calculating the WAM:

- A variable rate security meeting the requirements listed above will be deemed to have a maturity equal to the period remaining to the next reset date, provided that on any reset date such security can be reasonably expected to have a fair value that approximates its amortized cost.
- A floating rate security meeting the requirements listed above will be deemed to have a remaining maturity of one day, provided that at any time prior to maturity such security can reasonably be expected to have a fair value that approximates its amortized cost.

C. Weighted Average Life (WAL)

The weighted average life (WAL) of the portfolio shall not exceed 120 days. For the purpose of calculating the WAL:

- A variable rate security will be calculated using its final maturity.
- A floating rate security will be calculated using its final maturity.

4. Repurchase and Reverse Repurchase Agreements

Repurchase and reverse repurchase agreements will be subject to the following additional restrictions:

- Transactions will be conducted only with primary dealers, the state's bank of record, or master custodial bank, and under the terms of a written master repurchase agreement;
- Repurchase agreements with any single primary dealer or financial institution will not exceed 20% of the portfolio;
- The maximum term of repurchase agreements will be 180 days;
- The share of the portfolio allocated to repurchase agreements with maturities beyond 5 business days will not exceed 5% of the total portfolio. Repurchase agreements with final maturities beyond 5 business days that are subject to a demand feature that is exercisable and payable within 5 business days are not included in this limitation;
- The maximum term of reverse repurchase agreements will be 90 days and must be matched to anticipated cash flows adequate to liquidate the transaction; and
- The maximum portion of the portfolio allocated to reverse repurchase agreements or engaged in a securities lending program will not exceed 30% of the total portfolio.

Securities utilized in repurchase agreements will be subject to the following additional restrictions:

- Purchased securities utilized in repurchase agreements will be limited to U.S government and U.S. government agencies.
- Securities utilized in a repurchase agreement with a maturity date longer than seven days will be priced at least weekly;
- All substitutions will be approved by the OST before the existing purchased security is released to the broker/dealer; and
- The fair market value, plus accrued income, of securities utilized in repurchase agreements will be priced at 102% of the value of the repurchase agreement, plus accrued income.

Additional operating guidelines will provide details relating to the frequency of security pricing, substitutions, and margin calls.

VIII. PROFESSIONAL SERVICES

The OST may contract for professional services as necessary for the efficient management of investments.

1. Appointment of Master Custodian

The OST may select one or more firms to provide the state with master custodial services. Master custodial services will include, but not be limited to:

- Executing transactions involving all securities held in custody, including on-line security clearing, settlement of securities on a delivery-versus-payment basis (DVP), and settlement of physically-held securities;
- Providing regular reports on the activity and fair value of the securities in custody; and
- Providing for the safekeeping of all documents and financial instruments physically held in custody.

2. Appointment of Securities Lending Agent

The OST may select one or more firms to provide securities lending management services. Securities lending services will include, but not be limited to:

- Ensuring all loans of coupon-bearing securities are supported by collateral valued at not less than 102% of fair value of the securities, including accrued income;
- Ensuring all loans of non coupon-bearing securities supported by cash collateral, shall not be valued at less than 102% of fair value, but not to exceed par;
- Ensuring all loans of non coupon-bearing securities supported by non-cash collateral, shall not be valued at less than 102% of market value;
- Ensuring the average maturity of securities on loan and of the securities purchased are for 14 days or less;
- Ensuring that the investment of cash collateral be only in securities and deposits authorized in statute, and be in compliance with the investment guidelines found in the contract for securities lending services;
- Providing next day liquidity for all securities on loan; and
- Providing monthly accounting, performance, compliance, and management reports.

The services of a master custodian and securities lending agent will be obtained through an evaluation of competitive proposals submitted in response to a regularly issued request for proposals.

Securities purchased by the office are to be held by the master custodian, acting as an independent third party, in its safekeeping or trust department.

Collateral is to be similarly held or held by an independent third party with whom the office has a current master repurchase agreement.

IX. ADVISORY COMMITTEE

The State Treasurer created the LGIP Advisory Committee to provide advice on the operation of the pool. Of the committee members, all of whom are active LGIP participants, some members are appointed by participant associations, and some members are appointed by the State Treasurer. The LGIP Advisory Committee will meet quarterly or at the discretion of the State Treasurer.

X. PERFORMANCE BENCHMARK

A performance benchmark provides an appropriate comparison of risk and return based on an investment fund's policy criteria. The imoney.net, Govt Only Institutional Index is an index that is comprised of 2a7 government only portfolios and conforms to the LGIP investment objectives. Therefore, this index will be used as a comparison for risk and return results.

XI. REPORTING REQUIREMENTS

The OST will prepare regular reports summarizing characteristics and holdings in the fund.

In accordance with Washington Administrative Code 210-10-090, each pool participant will be provided a monthly statement of account. In accordance with RCW 43.250.080, the OST will submit an annual summary of LGIP activity to the governor, the state auditor, and the Joint Legislative Audit and Review Committee.

____ 6/3/2025

Approved by Mike Pellicciotti, State Treasurer Date

Effective Date: