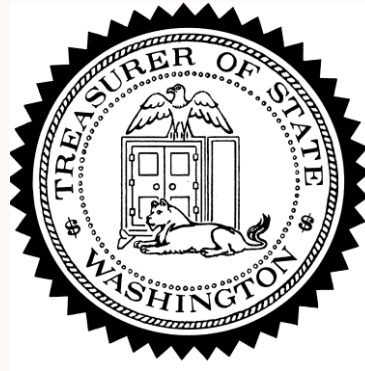


# Investments

## Washington State Treasurer's Office



Doug Extine, Deputy Treasurer – Investments

October 20, 2017

# OST Investment Program

## Two Separate Pools

- Local Government Investment Pool (LGIP)
  - 100% voluntary / 100% liquidity
  - Constant share price
  - Runs like a SEC Rule 2(a)-7 money market fund
- State Treasury
  - 100% mandatory / 100% liquidity but only to meet cash flows
  - Constant share price
  - Beyond 2(a)-7 parameters

# Washington LGIP

- Created by legislation in 1986
  - Separate from state treasury, local funds never commingled with state
- Open to all local governmental entities in the state
  - Voluntary participation
  - As of 2010, state can invest in LGIP, but LGIP cannot come into state
  - As of 2010, tribal governments can invest their governmental funds
- 100% liquidity daily by 10 am
  - No restrictions on transaction size or balances
- 608 participants, 885 accounts
  - All 39 counties
  - All cities > 10,000
  - PUDs, Ports, transit agencies, higher ed, etc.

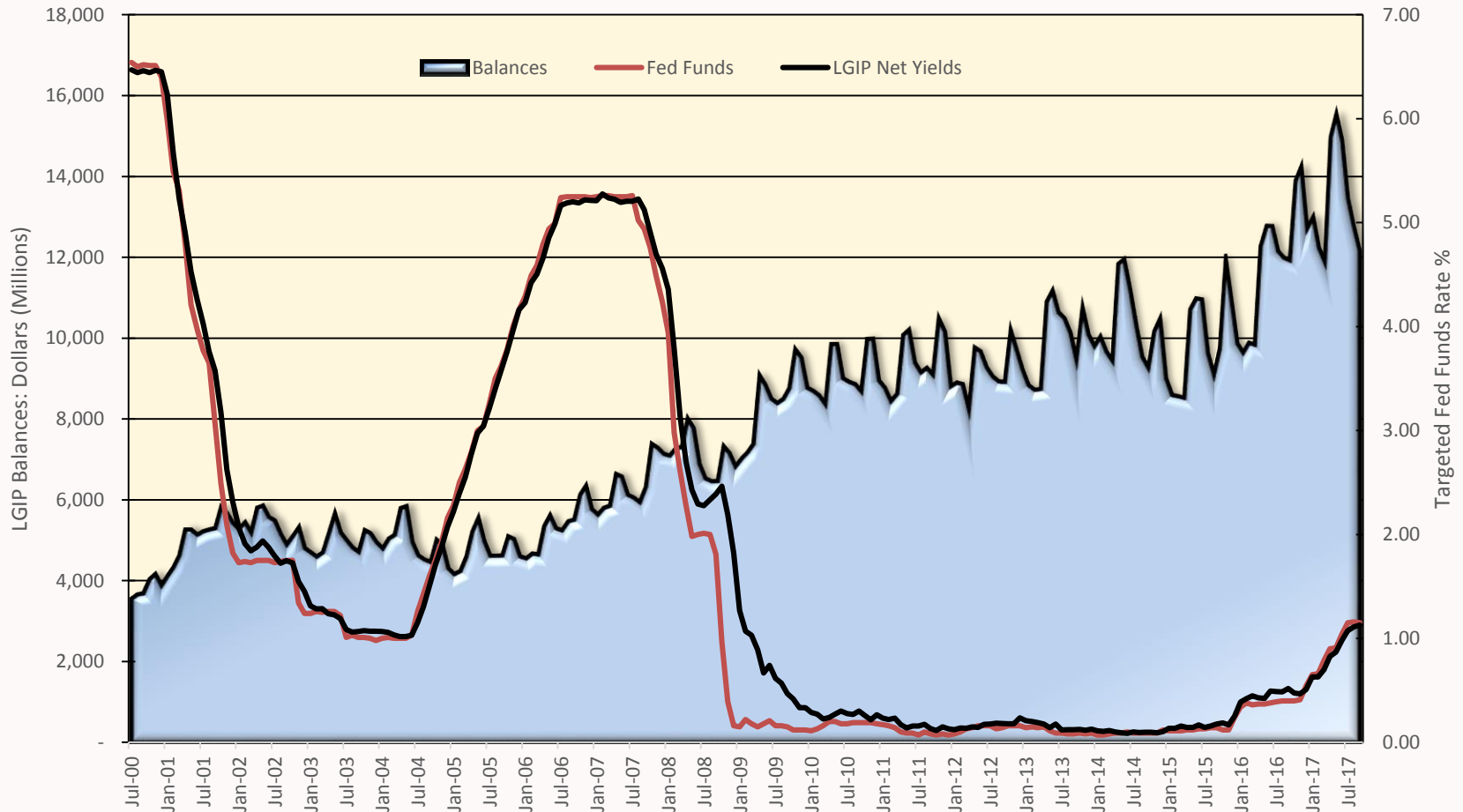
# Washington LGIP

- Objective: Provide a safe, liquid, short-term investment vehicle for local governments
  - Patterned after private sector 2a-7 money market funds
  - Benchmark: net and gross yields of the iMoneyNet Government and Agency group of funds
- 2017 Administrative Fee = 0.7 basis points
  - 11<sup>th</sup> year in a row it has been less than one basis point
- By statute can only charge what it costs to run the LGIP
  - Fee includes all direct and indirect costs
- FY 2017 Activity
  - Participants Contributions - \$46,570,124,800
  - Participants Distributions - \$44,534,344,752

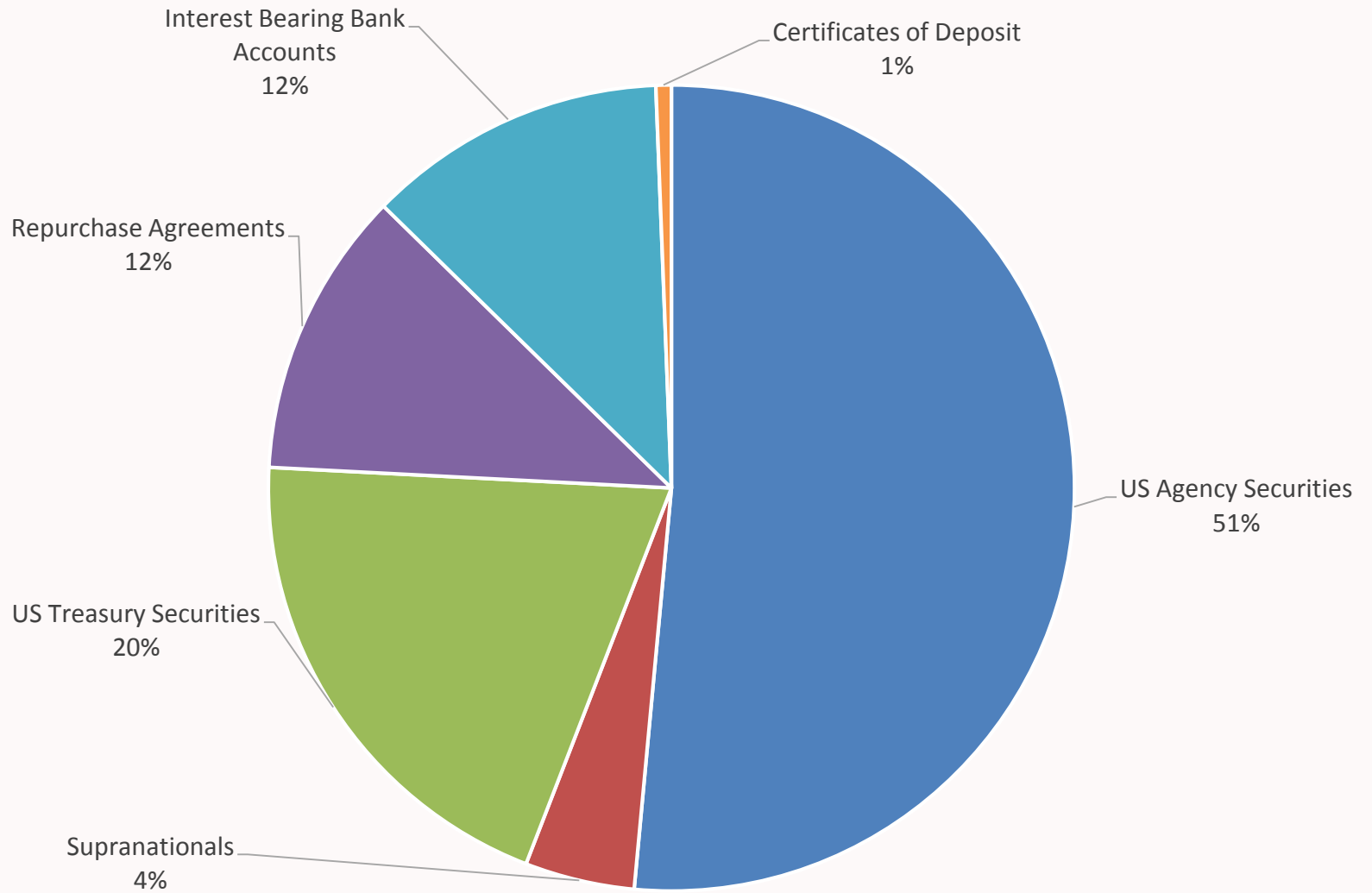
# Washington LGIP

- All aspects of LGIP managed by OST staff
  - Administration
  - Portfolio management
  - Accounting
  - IT: System and Support
- Annual external audit
- Transactions may be executed:
  - Online
  - By phone

# Washington LGIP: Yield and Balance History



# LGIP Holdings September 30, 2017



# What is the Treasury Trust Portfolio?

- Pooled portfolio consisting of several hundred accounts belonging to state agencies
- Accounts vary widely in size, level of activity and volatility
- Overall portfolio experiences significant seasonal and monthly cyclicalities and is subject to fluctuations due to economic conditions

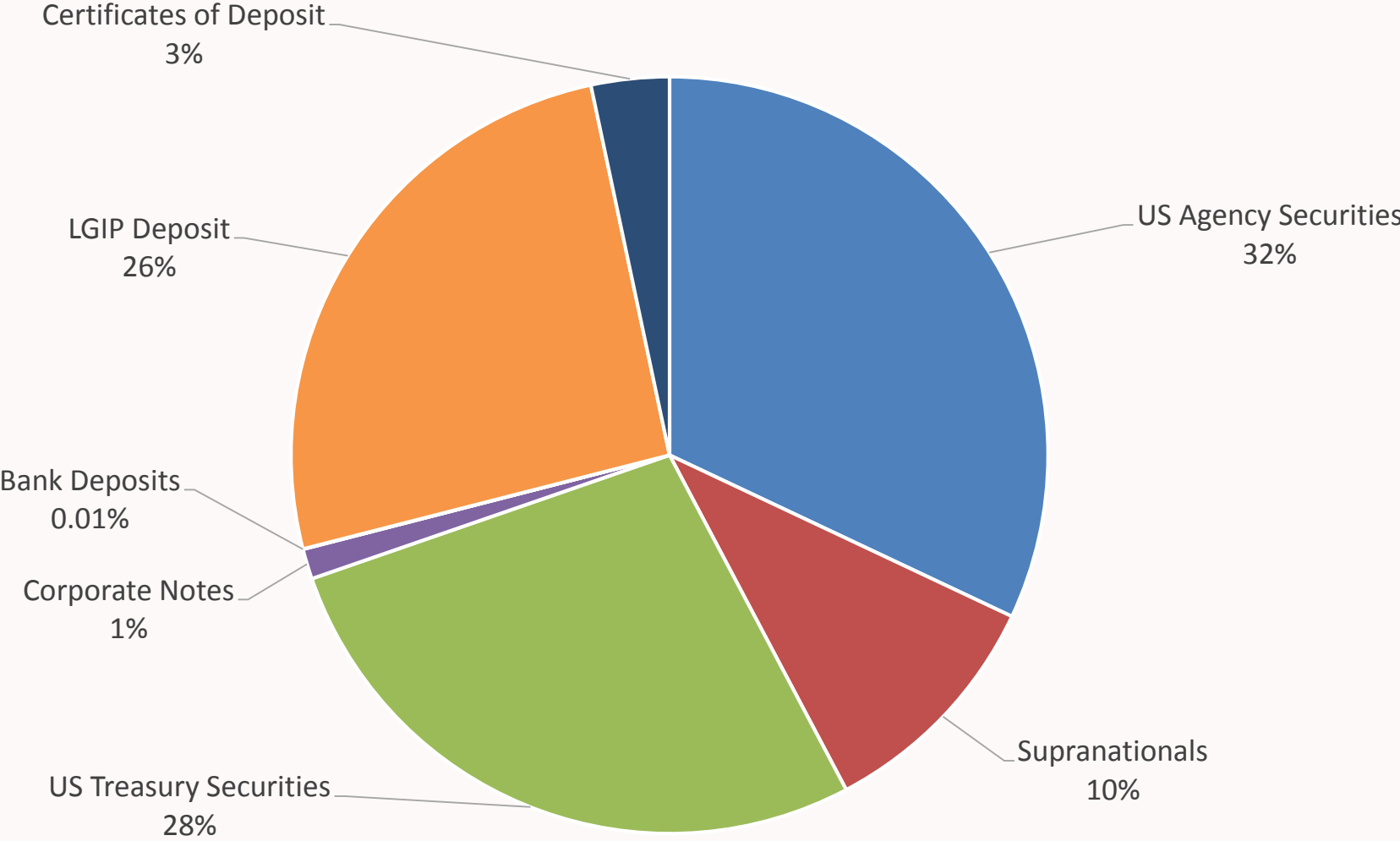


# Treasury Pool

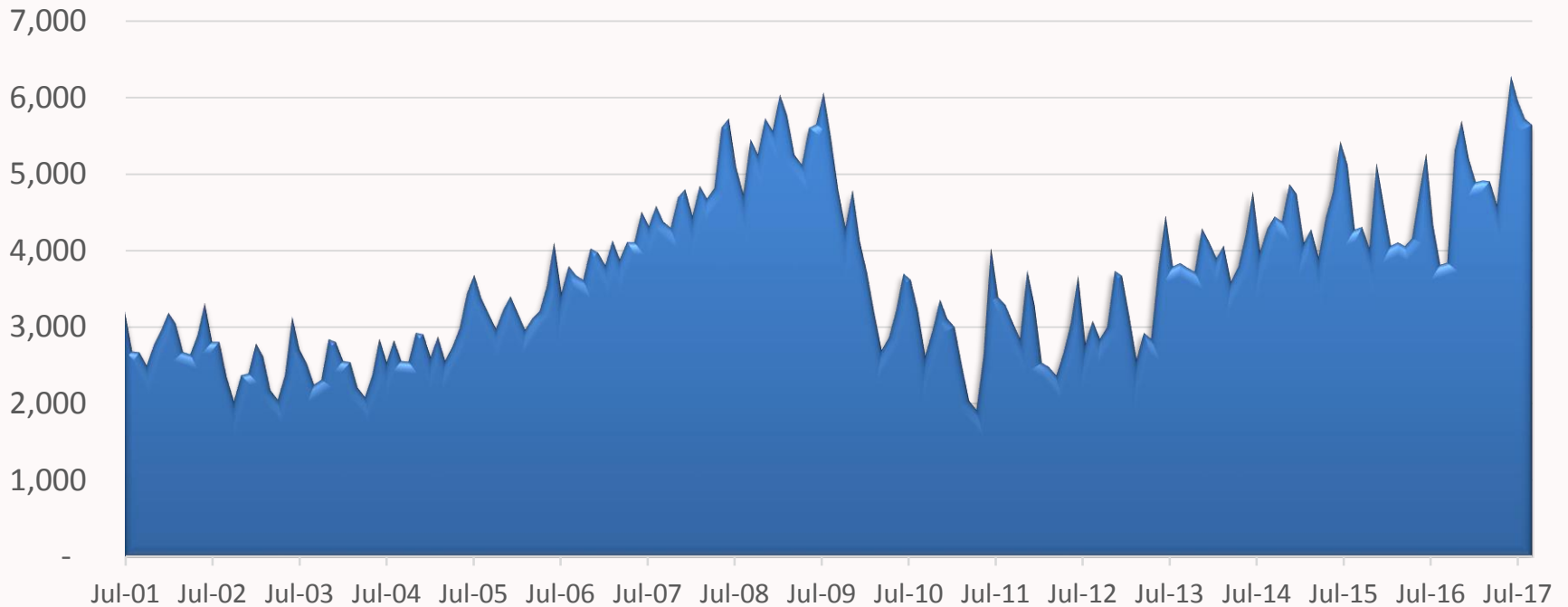
## Investment of Temporary Surplus Balances

- Objectives, in priority order
  1. Safety of principal
  2. Liquidity to meet agency cash requirements
  3. Yield
- Investment policy defines parameters
  - Ensures safety and liquidity requirements are met
- Yield is an important component
  - A significant source of revenue when rates environment is supportive

# Treasury/Trust Holdings September 30, 2017



# Month End Balance Treasury and Treasurer's Trust FY 2001-present (\$mm)



- Significant, volatile cash flow makes it difficult to:
  - Effectively manage portfolio duration
  - Establish a meaningful performance benchmark
  - Evaluate portfolio managers

# Solution: Subdivide the Treasury Pool into Two Portfolios

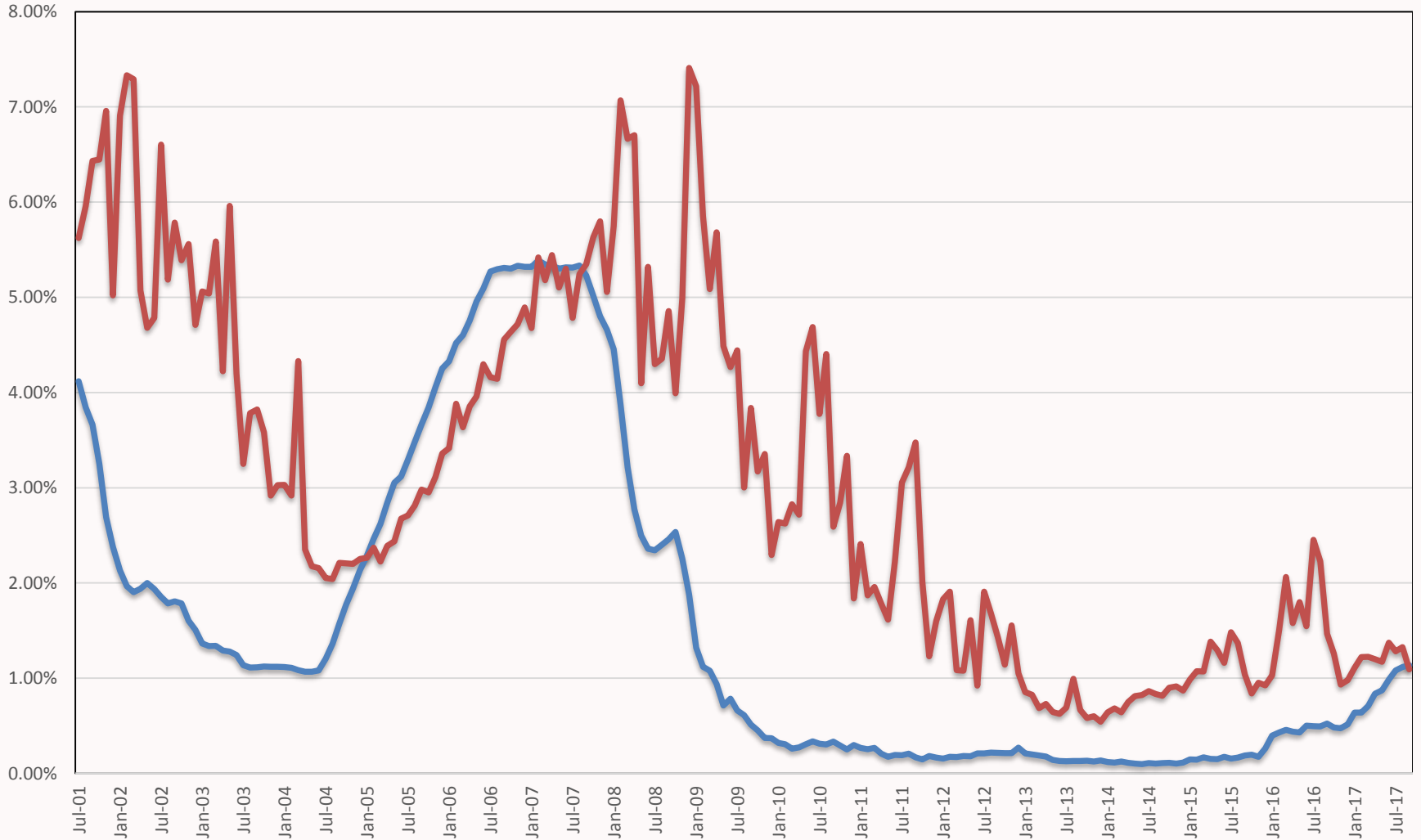
- “Liquidity” Portfolio:
  - Size ranges from \$0.2 to over \$2 billion
  - Responsible for day-to-day cash requirements
  - Manages cash for the core portfolio
  - Investment guidelines comparable to 2a-7 parameters
  - Measured against a valid performance benchmark
  - Incorporates cushion against unanticipated cash flows
  - Invests in the LGIP as well as other short-term instruments

# Solution: Subdivide the Portfolio

- “Core” Portfolio
  - Sole focus is fixed income investing
    - Buffered from day to day liquidity needs (still required to provide liquidity if needed)
    - Size varies depending on economic and rates environment
    - STIF/Liquidity available for cash investing
  - Improved accountability and oversight
  - Measured against valid performance benchmark
    - Blended benchmark of three ML index funds with an appropriate target duration
  - Size of core portfolio is adjusted periodically to ensure liquidity in light of cash flow forecasts

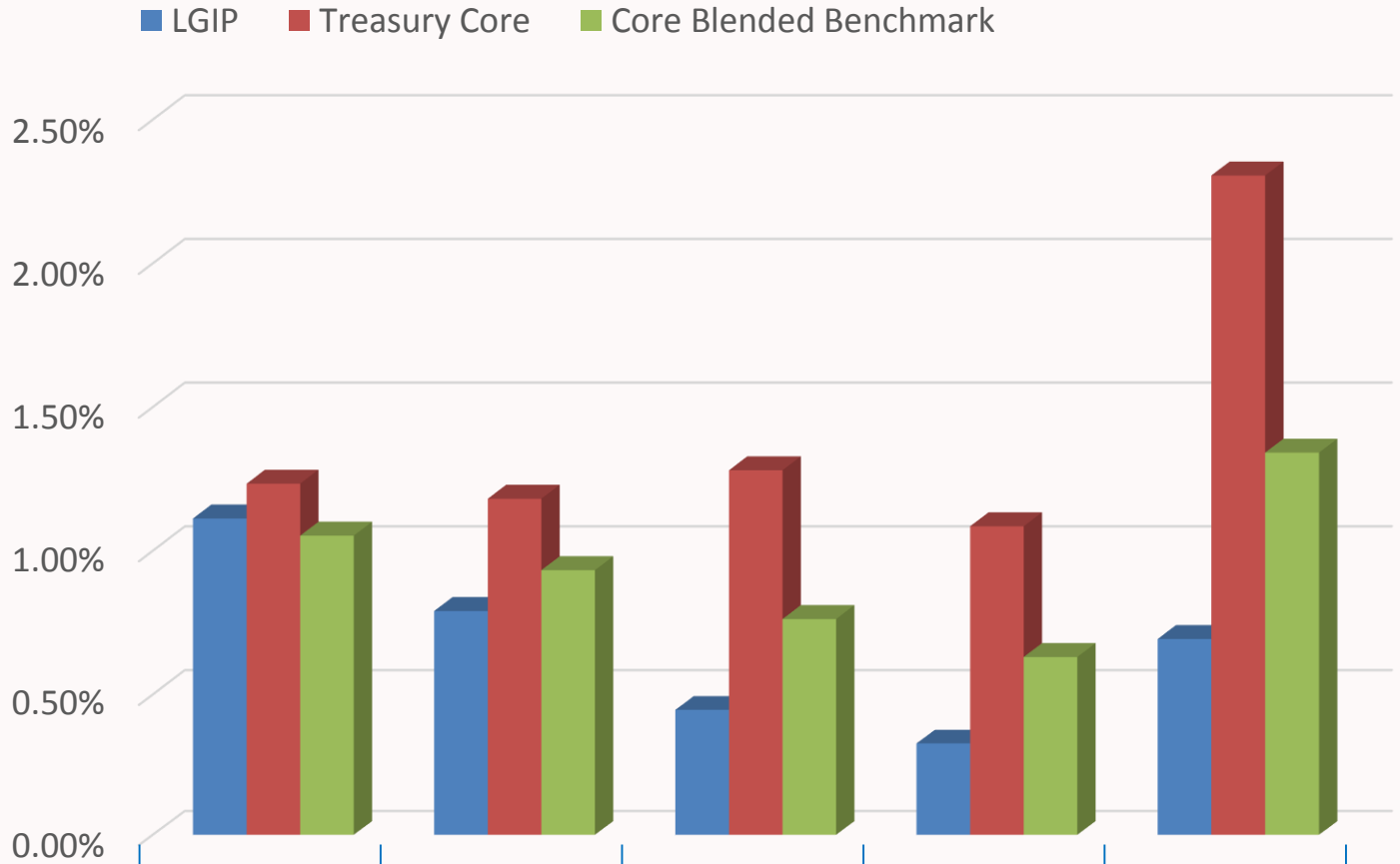
# LGIP vs Treasury Core: Accrued Yield

— LGIP — Core



# Accrued Yield

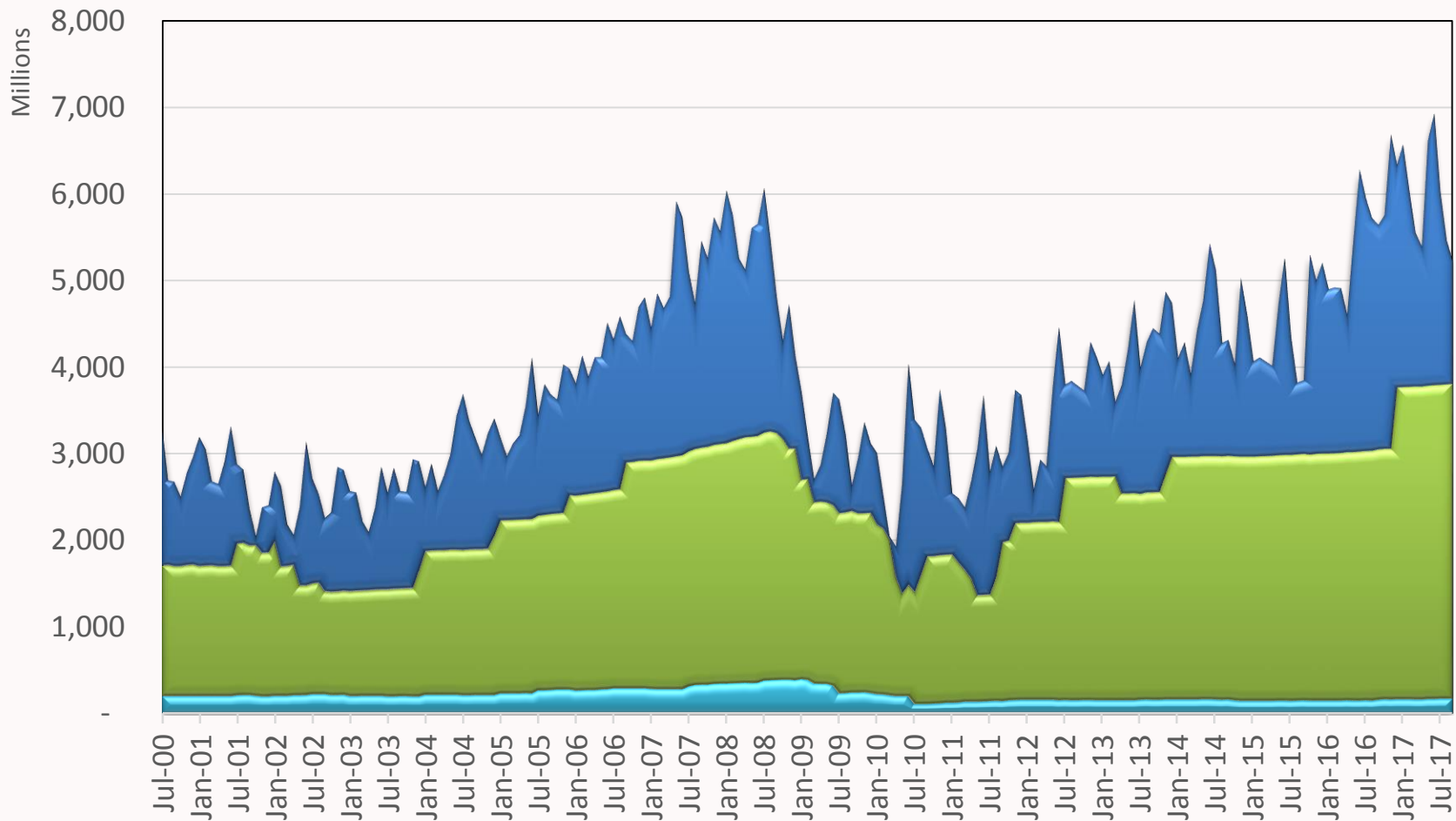
## LGIP, Treasury Core and Core Blended Benchmark



|                        | Quarter | 1 Year | 3 Years | 5 Years | 10 Years |
|------------------------|---------|--------|---------|---------|----------|
| LGIP                   | 1.11%   | 0.79%  | 0.45%   | 0.33%   | 0.69%    |
| Treasury Core          | 1.23%   | 1.18%  | 1.28%   | 1.09%   | 2.31%    |
| Core Blended Benchmark | 1.05%   | 0.93%  | 0.76%   | 0.63%   | 1.34%    |

# Treasury and Treasurer's Trust Balance by Portfolio FY 2001-present

CDs Core Liquidity

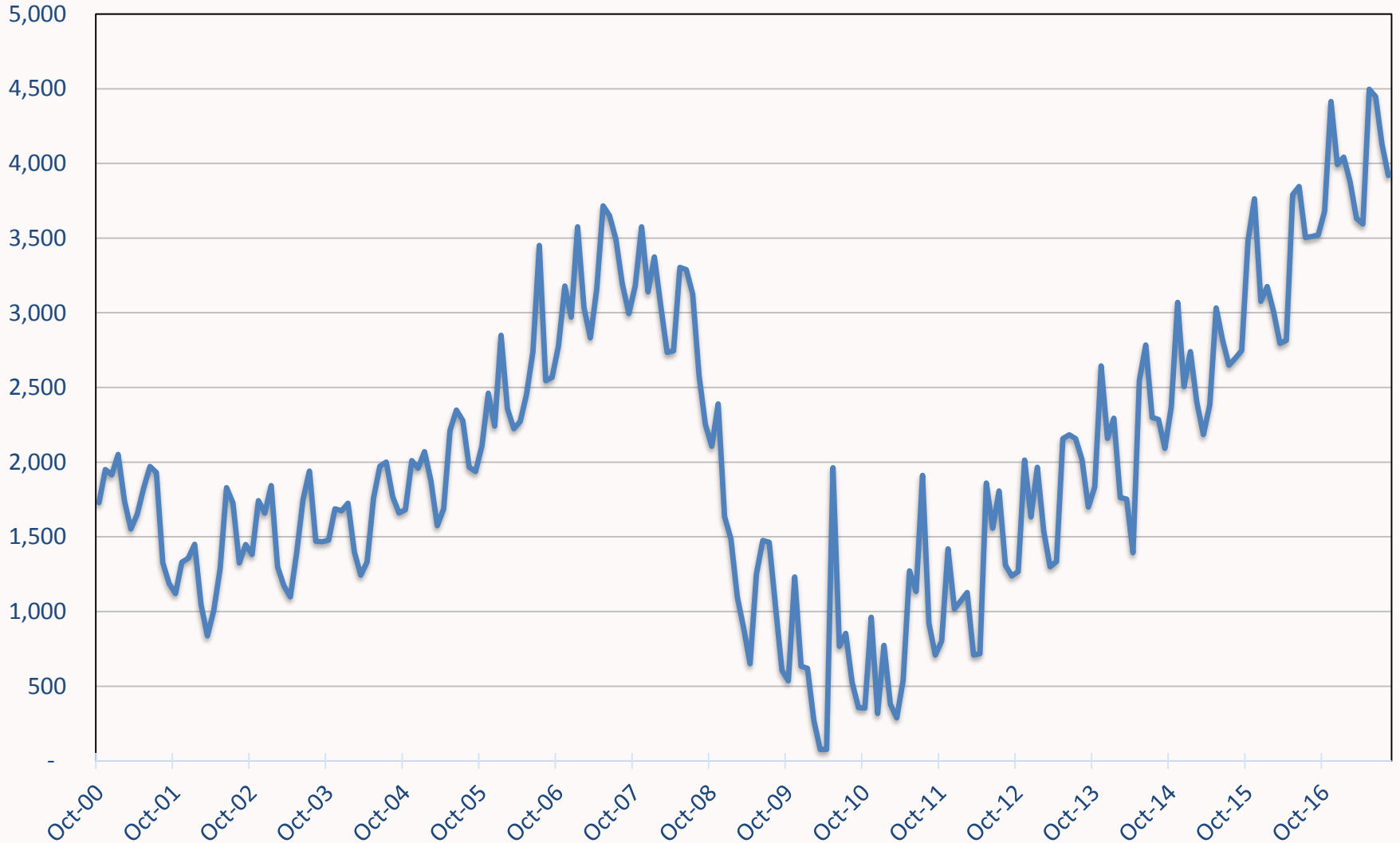




# Limitations on Treasury and Treasurer's Trust

- Use of bond proceeds are restricted by the IRS, State law and bond resolutions
- Use of most WSDOT funds are restricted by the State Constitution
- Diversion of funds invested in CDs supporting the Linked Deposit Program would negatively impact OMWBE and veteran-owned businesses
- Intra-month low balances can be significantly lower than month-end balances

# Treasury Trust Low Balance for Succeeding Month Net of Bond Proceeds, DOT Funds and Linked Deposit Funds October 2000-August 2017 (\$mm)



# Questions?