SPOKANE COUNTY INVESTMENT POLICY

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SPOKANE COUNTY INVESTMENT POOL (SCIP)

Approved by the Spokane County Finance Committee: February 19th, 2021

SPOKANE COUNTY
INVESTMENT POLICY

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I. INTRODUCTION AND OVERVIEW

The Treasurer's office provides cash custody, banking and financial services, investment, revenue collection, and debt payment services for approximately 80 regional government districts including school districts, transit, airport, Spokane County, fire districts, cemeteries, water districts, and other special districts. The Treasurer's Office collects over $600 million in taxes, and processes approximately $100 million in debt payments for principal, interest, and debt refunding.

The average annual balance of funds invested in the Spokane County Investment Pool (SCIP) ranges between $1.0 and $1.5 billion in fund balances. The balance is dependent upon participants' bond issues and tax receipt cycles. To increase public understanding of the investment pool, SCIP is sometimes also referred to as the Spokane Public Investment Fund.

The purpose of this Investment Policy is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the prudent management and investment of public funds in the custody of the Spokane County Treasurer.

II. GOVERNING AUTHORITY AND INVESTMENT RESPONSIBILITY

Investment activity is subject to the Revised Code of Washington (RCW). The Treasurer of Spokane County is authorized by RCW 36.29.020 to determine the investable balances in each fund of the County and its junior taxing districts and is authorized to invest such monies. The Treasurer of Spokane County may also invest the funds of taxing districts outside of Spokane County which are not required for immediate expenditure.

Investment activity is subject to the Revised Code of Washington, the investment policy as approved by the County Finance Committee as defined in RCW 36.48.070 and subject to the discretion of the Treasurer. The Spokane County Finance Committee includes the Chair of the Board of County Commissioners, County Auditor, and the Treasurer of Spokane County as Chair of the Committee. The SCFC shall review and approve the investment policy annually.

III. SCOPE

Funds in the custody of the Treasurer of Spokane County include, but are not limited to: General Funds, Special Revenue Funds, Capital Project Funds, Enterprise Funds, Debt Service Funds and Agency Funds. The Treasurer provides investment services for all governmental entities, except Cities, within Spokane County including Fire Districts, Water and Irrigation Districts, Cemetery Districts, School Districts, and Transit and Airport Authorities.

- All retirement funds, except Spokane Valley Fire Pension, will be invested as determined by the appropriate Boards of Administration and are not covered by this Policy.
- Funds set aside to defease debt in conjunction with an advance refunding agreement will be invested in accordance with appropriate bond documents and not necessarily in compliance with this policy.
- Should bond covenants be more restrictive than this policy, funds will be invested in full compliance with those restrictions.

- Funds held for the Municipalities during tax collection periods shall be governed by the County's investment policies and will be invested for the benefit of the Municipalities when requested, as stipulated in RCW 36.29.020.

IV. Primary Investment Objectives

Safety, liquidity and investment income are the primary objectives of the County's investment program. The Treasurer has a responsibility in the investment of public funds to seek a market rate of investment income that is consistent with the primary requirements of legality, safety and liquidity in that order.

Rate speculation will not be a major criterion for the selection of an investment. All other criteria, including cash flow and maturity, take preference to rate expectations.

The principal investment objectives are:

1) Safety: Safety of principal is the foremost objective of the Spokane County Treasurer. Investments of the County shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification and safekeeping are required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

2) Liquidity: The investment portfolio will remain sufficiently liquid to enable the County to meet all cash flow requirements that might be reasonably anticipated. This objective shall be achieved by matching investment maturities with forecasted cash outflows and maintaining an additional liquidity buffer for unexpected liabilities.

3) Investment Income: The investment portfolio shall be designed with the objective of attaining a market rate of investment income throughout budgetary and economic cycles, taking into consideration legal limitations, the County's investment risk constraints, and the cash flow characteristics of the portfolio.

V. Primary Investment Philosophy

The primary investment philosophy of the County is to match investment maturities with expected cash outflows. Securities shall generally be held until maturity, with the following exceptions:

- A security with declining credit below authorized ratings may be sold prior to maturity to minimize loss of principal.
- Liquidity needs of the portfolio require that a security be sold prior to maturity.
- A security rebalance or swap would improve the quality, yield, or target duration in the portfolio.

VI. Oversight Committee, Standards of Care, And Ethics

1) Delegation of Authority

   a. Treasurer: The Treasurer of Spokane County has the ultimate responsibility for all investments individually or within the Spokane County Investment Pool. RCW 36.29.020.

b. RCW 36.48.070 establishes the Spokane County Finance Committee (SCFC): Any exceptions to the investment practices as defined in the investment policy will require prior approval of the SCFC. The SCFC shall provide oversight as to the adherence to the policy by the Treasurer. The SCFC will also be responsible for reviewing the approved broker dealer list as requested by the Treasurer. The SCFC will schedule regular meetings not less than twice per year.

c. Treasurer Staff: The Treasurer shall delegate to appropriately skilled staff, within an established system of controls, to regulate the investment activities. The Treasurer may delegate a person or a non-discretionary registered investment advisory firm to initiate investment transactions on behalf of the Treasurer through express written consent or contract. The investment officer or advisor is the person or firm delegated the primary responsibility of investment management and compliance with rules, regulations and policies.

d. Cash Management Team: Excess daily cash balances are determined by the Treasurer's Cash Management Team. The Cash Management Team is responsible for the overnight investment of this excess cash in the State Treasurer's Local Government Investment Pool (LGIP). The use of other overnight instruments must meet the criteria and guidelines of this policy.

2) Prudence:

a. Prudent Person Rule: Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes, considering first the safety of their capital, then the probable income to be derived.

b. The Investment Officers and Advisors acting in accordance with the prudent investor standard, written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided these deviations are reported immediately and that appropriate action is taken to control adverse developments.

c. The SCFC and employees involved in the County's investments shall recognize that the investment policies and portfolio are subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

d. The SCFC recognizes that in a diversified portfolio selected losses may occur when interest rates change and selected securities are sold to meet cash flow needs or to adjust the portfolio and must be considered within the context of the overall portfolio's investment objectives.

3) Ethics and Conflicts of Interest

The Treasurer and the investment deputies shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment deputies shall disclose to the Treasurer any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the County's portfolio. The Treasurer and investment deputies shall refrain from undertaking personal investment transactions with the same individuals with whom business is conducted on behalf of their entity.

VII. TRANSACTION COUNTERPARTIES

The Treasurer shall maintain a list of all broker/dealers and authorized financial institutions that are approved for investment purposes. Any firm is eligible to make an application to the Treasurer and upon due consideration and approval, will be added to the list. Additions and deletions to the list will be made at the Treasurer's discretion. There should be in place, proof as to all the necessary credentials and licenses held by employees of the brokers/dealers who will have contact with The Treasurer of Spokane County as specified by but not necessarily limited to the Financial Industry Regulatory Authority (FINRA), Securities and Exchange Commission (SEC), etc.

1) Broker/Dealers:

Primary and secondary dealers must be registered with FINRA and meet the Securities and Exchange Commission (SEC) rule 15c3-1 (uniform net capital rule). The Treasurer will periodically review the approved list for due diligence regarding financial condition, registration and ethical conduct. The Treasurer can assign the responsibility of broker/dealer due diligence process to the Investment staff or the non-discretionary investment advisor.

a. Primary Dealer Requirement: Those dealers who as primary government securities dealers report daily to the New York Federal Reserve Bank. In addition, should concerns of any of these firms' economic viability be raised or should past practices cause concern, these institutions may be restricted from conducting business with the Treasurer.

b. Secondary Dealer Requirement: Secondary security dealers will be included only if they meet the following conditions:
    i. Have a minimum net worth of $10 million or a letter of credit to support security settlements.
    ii. The Treasurer's office and the SCFC will consider any available information, but at a minimum will consider the firm's financial statements and the reference of other public customers currently doing business with this dealer.

c. Documentation Requirements:
    i. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following for initial approval:
        - Audited financial statements for the last three years.
        - Certification of having read Spokane County's investment policy.
        - Completed broker/dealer questionnaire including references
    ii. If the County utilizes a non-discretionary Registered Investment Advisor for transactions, the County may accept the Advisor's due diligence and approved broker dealer list for authorized counterparties. The Advisor may be directed to set up accounts with their approved broker dealers to transact on behalf of the County. All transactions executed by the Advisor must be documented and a competitive pricing platform must be utilized.

2) Financial Bank Institutions:

RCW 39.58.130 authorizes the investment of municipal funds in deposits in qualified public depositaries provided the total in public deposits does not exceed the total net worth of the bank.

A current list of qualified public depositaries and their equity amounts are available upon request. RCW 36.29.020. The most current lists of these banks are on file at the Public Deposit Protection Commission which can be accessed via the Washington State Treasurer's Website.

3) Investment Advisors/Consultant:

An Investment Advisor/Consultant may be utilized to provide oversight, manage funds, execute transactions and will be selected through a process that is consistent with Spokane County procurement guidelines.

4) Competitive Transactions:

The investment officer will obtain by telephone, email or other electronic formats, pricing on securities to purchase or sell. It will be the responsibility of the investment deputy involved with each purchase/sale to produce and retain written records of each transaction, including the name of the financial institution solicited, the rate quoted, a description of the security, the investment selected, and any special considerations that had an impact on the decision. If the lowest price security (highest yield) was not selected for purchase, an explanation describing the rationale will be included in this record.

The investment deputy will conduct all security transactions in a fair, open and transparent competitive process.

- For new issue securities that sell at 100, the allocations will be rotated amongst the approved dealers.
- For all secondary market transactions, an effort to obtain at least three bids or offers will be conducted, or documentation of comparable securities levels will be retained, in order to ensure price transparency and competitive levels.
- Offers or bids for securities may be received from the approved broker-dealers by any of the following means:
    - By Phone; or
    - By e-mail or other form of messaging; or
    - Through electronic trading platforms; or
    - From inventory listings supplied by approved broker-dealers; or
    - Directly from the issuers of eligible securities.

VIII. Safekeeping, Custody and Controls

1) Safekeeping of Securities:

Securities purchased by the County shall be held in a segregated account for the County's benefit at a third-party trustee as safekeeping agent. The approved broker/dealer shall provide the County with a confirmation ticket listing the specific instrument, issuer, coupon, maturity, CUSIP number, purchase or sale price, transaction date, and other pertinent information. The broker/dealer who executes the transaction on the County's behalf, shall deliver all securities on a delivery versus payment method to the designated third party trustee at the direction of the Investment Deputy.

2) Bank Deposits and Certificates of Deposit:

The County may hold bank deposits or certificates of deposits at banks qualified under RCW 39.58.130.

3) Accounting Method:

The County shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies including but not necessarily limited to, the Governmental Accounting Standards Board (GASB); the American Institute of Certified Public Accountants (AICPA); and the Financial Accounting Standards Board (FASB).

Pooling of Funds: Except for cash in certain restricted and special funds, the Treasurer will consolidate balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

4) Internal Controls:
The Treasurer shall maintain a system of written internal controls which shall be reviewed and tested by the independent auditor periodically or upon any extraordinary event, i.e., turnover of key personnel, the discovery of any inappropriate activity. These shall be subject to review by the SCFC.

IX. Authorized & Suitable Investments

All investments of the County are limited by RCW, principally RCW 36.29.020, RCW 39.59.040 and RCW 43.250.

- This policy recognizes S&P, Moody's and Fitch as the major Nationally Recognized Statistical Ratings Organizations (NRSRO).
- In the case of split ratings, where the major NRSROs issue different ratings, the lower rating shall apply. Minimum credit ratings and percentage limitations apply to the time of purchase.
- All securities must be purchased on the secondary market and may not be purchased directly from the issuer.
- The State of Washington Local Government Investment Pool is the only government-sponsored pool approved for investment of funds.

US Treasury Obligations: Direct obligations of the United States Treasury. RCW 36.29.020

US Agency Obligations - Primary: Government Sponsored Enterprises (*GSEs*) – Federal Instrumentality Securities include, but are not limited to Federal National Mortgage Association (*FNMA*), the Federal Home Loan Mortgage Corporation (*FHLMC*), Federal Home Loan Banks (*FHLB*), and the Federal Farm Credit Banks (*FFCB*). RCW 36.29.020

US Agency Obligations - Secondary: Other US government sponsored enterprises that are less marketable are considered secondary GSEs. They include, but are not limited to: Private Export Funding Corporation (PEFCO), Tennessee Valley Authority (TVA), Financing Corporation (FICO) and Federal Agricultural Mortgage Corporation (Farmer Mac). RCW 36.29.020.

Supranational Institution Obligations: The institution must have the U.S. government as its largest shareholder at the time of purchase. Institutions that meet the criteria include, but might not be limited to: International Bank for Reconstruction and Development (IBRD or World Bank); the International Finance Corporation (IFC); and the Inter-American Development Bank (IADB). RCW 39.59.040.

Municipal Debt Obligations: Bonds of the State of Washington, any local government in the State of Washington, and General Obligation bonds outside the State of Washington. At the time of investment, the bonds must have a minimum rating based on the broad single-A (A-/A3) category from all the major rating agencies that rate the security.. Municipal debt issued by Districts or participants of the SCIP may be purchased without a rating at the discretion of the Treasurer. RCW 39.59.040.

Corporate Notes: Corporate note investments shall abide by the policies adopted by the State Investment Board. Unsecured debt obligations purchased in accordance with the investment policies and procedures adopted by the State Investment Board. Corporate notes must be rated at least weak single-A (A- or A3) or better by all of the major rating agencies that rate the note at the time of purchase. The maturity must not exceed 5 years and the maximum maturity of the corporate note portfolio cannot exceed 3 years. The percentage of corporate notes that may be purchased from any single issuer rated AA/Aa3 or better by all major rating agencies that rate the note is 3% of the assets of the total portfolio. The percentage of corporate notes that may be purchased from any single issuer rated in the broad single-A (A-/A3) category from all the major rating agencies that rate the security, is 2% of the total portfolio. Foreign issuers are further constrained to a 2% limit for each country, with the exception of Canadian issuers, which have no limit. Corporate notes must be purchased on the secondary market through a broker dealer and cannot be purchased directly through the issuer. Issuer constraints for corporate notes combined with commercial paper will be limited to 3% of market value per issuer. RCW 39.59.040.

Commercial Paper: Commercial paper investments shall abide by the policies adopted by the State Investment Board. Unsecured debt obligations of corporate issuers of commercial paper must be rated with the highest short-term credit rating category of any two major NRSROs at the time of purchase. If the commercial paper is rated by more than two major NRSROs, it must have the highest rating from all of them. (A1, P1, F1)Commercial paper holdings may not have maturities exceeding 270 days. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term senior unsecured credit rating at the time of purchase in one of the three highest rating categories of an NRSRO (A-/A3). Issuer constraints for commercial paper combined with corporate notes will be limited to 3% of market value per issuer. RCW 39.59.040.

Certificates of Deposit: Non-negotiable Certificates of Deposit of financial institutions that are “Qualified Public Depositories” as defined in RCW 39.58.010(2) and by the restrictions within.

Time Deposits and Savings Accounts Issued by Banks: Deposits in PDPC approved banks. RCW 36.29.020.

Banker’s Acceptance: Bankers Acceptances (BAs) drawn from a list of the top 50 U.S. Banks by asset size provided banks with a short-term debt rating below P1 by Moody's or below A1 by Standard & Poor’s, as reported by the Bloomberg Financial Service, will not be included. Washington State banks may be included if they are members of the Washington Public Deposit Protection Commission (PDPC), provided they have the same credit rating as defined above. The list of banks may be periodically updated without prior approval by the Finance Committee, provided the list adheres to all other aspects of the investment policy. This can only be transacted on the secondary market not directly from the issuer. RCW 39.59.040.

Repurchase Agreements: Repurchase Agreements providing the underlying securities are acceptable U.S. Government Securities, U.S. Government Agency Securities, or U.S. Government Sponsored Corporations, as previously authorized, and subject to specific conditions which will be listed in agreement documents prior to transactions.

Washington State Local Government Investment Pool: Investment Pool managed by the Washington State Treasurer's Office. RCW 43.250.

Registered Warrants: Subject to compliance with RCW 39.56.030, registered warrants and notes for Spokane County and those districts in Spokane County for which the Treasurer is the ex-officio Treasurer. Such notes will be for short-term financing for use in meeting cash flow and operational needs only. This includes Improvement Districts' warrants which are within the protection of the Improvement Guaranty Fund. There must be certain expected receipts and revenues to repay the lending. The amount of the lending will not exceed 8% of expected revenues.

Direct District Notes: Direct District Notes, also known as Local Direct Investments (issued in the form of notes), with a term not to exceed five years, of Spokane County and the districts in Spokane County for which the County Treasurer is the ex-officio treasurer. The issuance of such debt must be approved by the governing board of the borrowing entity and must pledge the entities' general or operating fund revenue in support of repayment of the principal and interest of the debt.

Collateralization:
The Public Deposit Protection Commission (PDPC) makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. Under the act, all public treasurers and other custodians of public funds are relieved of the responsibility of executing tri-party agreements, reviewing pledged securities, and authorizing additions, withdrawals, and exchanges of collateral.

Collateralization is required on repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be a minimum of 102% of market value of principal and accrued interest. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly defined evidence of ownership of the collateral must be supplied to the entity.

X. Investment Parameters

1) Diversification:

a. The County will diversify use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturity dates. The diversification will consider the market climate and cash flow demand at the time of investment in that the instruments selected will be the most advantageous for the County without exceeding the maximum limitations set forth below. The target distribution will guide investment decisions during normal economic times.

Issuer Type	Maximum % Holdings	Maximum % Per Issuer	Ratings: S&P/Fitch/Moody's
U.S. Treasury Obligations	100%	None	N/A
U.S. Agency/GSE Primary FHLB, FNMA, FHLMC, FFCB	100%	35%	N/A
U.S. Agency/GSE Secondary FICO, FARMER MAC, Etc.	10%	5%	AA-/AA-/Aa3
Supranational Obligations	40%	15%	AA-/AA-/Aa3
Municipal Obligations	30%	5%	A-/A-/A3
Corporate Obligations	25%*	3%: AA-/AA-/Aa3 2%: A-/A-/Aa3	A-/A-/A3
Commercial Paper		3%	A-1/F1/P-1
Certificates of Deposit	20%	5%	Deposits in PDPC Approved Banks
Bank Time Deposits/Savings	25%	10%	Deposits in PDPC Approved Banks
Bankers' Acceptances	10%	5%	N/A
Repurchase Agreements	10%	5%	AA-/AA-/Aa3
Direct District Notes	10%	None	N/A
Registered Warrants	15%	None	N/A
State LGIP	100%	None	N/A

*Issuer constraints apply to comined issues in corporate and commercial paper holdings.

Table of Constraints on the Portfolio

2) Investment Maturity

The County will not directly invest in securities maturing more than five (5) years from the date of purchase.

a. The maximum weighted maturity of the total portfolio shall not exceed 2.5 years. This maximum is established to limit the portfolio to excessive price change exposure.

b. Liquidity funds will be held in the State Pool or in money market instruments maturing six months and shorter. The liquidity portfolio shall, at a minimum, represent six month budgeted outflows.

c. Investment funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between 1 day and 5 years and will be only invested in high quality and liquid securities.

d. Total Portfolio Maturity Constraints:

Maturity Constraints	Minimum % of Total Portfolio
Under 30 days	10%
Under 1 year	25%
Under 5 years	100%
Maturity Constraints	**Maximum of Total Porfolio in Years**
Weighted Average Maturity	2.5 years
Security Structure Constraint	**Maximum % of Total Portfolio**
Callable Agency Securities	25%

e. Exception to 5 year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

f. The Treasurer may sell securities if it is to protect the principal of the fund, adjust the position of the fund or to provide for liquidity.

3) Prohibited Investments:
The County shall not invest in securities otherwise prohibited by state law

XI. CALCULATION PARAMETERS

Calculations of percentage allocations from Section X shall be done at the time of purchase and formulated on book value. Weighted average maturity is calculated using a security's stated final maturity and using the settlement date. (Note: Information on securities which have been purchased/sold, but have not settled, may be included.)

XII. RISK DISCLOSURES

All securities purchased directly for a separate account are considered direct investments and have inherent market risks which are the same as the risks on the investments in the Pool.

All securities purchased by the Pool shall belong jointly to the Participants who shall share realized gains, income and any realized losses on a pro-rata basis. An investment in the Pool is not an investment in a money market or bank account, which typically has a lower- average maturity (under 60 days) and lower yield. An investment in the Pool is not insured or guaranteed by the Federal Deposit Insurance Corporation, Spokane County or any other government agency. The interest earnings of the Pool, depends on amortized earnings and interest accruals at prevailing investment rates and the fund is anticipated to remain at a stable $1.00 value. The interest earnings of the Pool and direct investments are typically higher than money market or bank accounts due to the longer average maturity of the Pool and direct investments. The market value of the Pool's underlying securities, relative to the cumulative fund balances may vary and will be tracked by the Net Asset Value (N.A.V.).

The Pool's market value and the direct investments may fluctuate due to one or all of the following risks:

Income Risk: Because there may be fluctuation in market interest rates, the amount of income generated by the Pool may fluctuate as well.

Counterparty Risk: A party to a transaction involving the Pool or investments may fail to meet its obligations. This could cause the Pool or separate account to lose the benefit of the transaction or prevent the Pool or account from selling or buying other securities to implement its investment strategies.

Interest Rate Risk – Market Value Risk: The Pool and direct investment market values will be affected by changes in interest rates. The rise and fall in interest rates will make the price (i.e. market value) of the underlying security fluctuate, and therefore, affect the value of the Pool's investments and separate fund investments. As a result, the value of the participant's pro-rata share of the Pool will fluctuate with the value of the underlying assets. This will affect the value at which the pro-rata shares or separate securities will be reported on the books of the Participant for financial reporting.

Credit Risk: A government or company that issues a security may not be able to repay the principal or pay interest when due which could result in a loss to the Pool. The risk tends to increase as an issuer's credit rating declines, which impacts the market value of the security. The Pool or direct investments may be made in securities that meet the rating criteria of this policy; however, the rating on some securities purchased may fall below this rating. The Pool or direct investments may continue to hold the downgraded securities at the discretion of the portfolio manager.

Management or Portfolio Selection Risk: The portfolio manager's judgement about the market or interest rates, credit quality or value of a specific security, or the market trends affecting a specific security may be incorrect and cause the value of the Pool to decline.

Liquidity Risk: Liquidity risk is the risk that the Pool will experience if significant net withdrawals of the Pool shares occur. The first source of liquidity is bank deposits and LGIP funds, if those are not available then securities would be sold to provide for cash needs. If there were not buyers for the portfolio securities or they can't be sold without incurring a significant loss the pool, then the pool would incur liquidity risk. All the securities held directly or in the Pool, are considered highly marketable securities with active buyers in the marketplace.

Risk Associated with use of Amortized Costs: The use of amortized cost valuation means that the Pool's stable $1.00 price value may vary from its market value N.A.V per share. In the unlikely event that the Spokane County Treasurer were to determine that the extent of the deviation between the Pool's amortized cost per share and the market value N.A.V. per share may result in material dilution or other unfair results to the shareholders, the Treasurer may cause that Pool to take such action as it deems appropriate to eliminate or reduce dilutions that cause unfair results to participants.

Corrective Actions:

The Treasurer may take such corrective actions, including but not limited to the following: that the Treasurer determines in his discretion are in the best interests of the participants in the Pool and for separate direct investments.

1. Restricting or suspending the redemption of funds, in such amounts and upon such time restrictions as the Treasurer deems necessary;
2. Selling securities in the Pool prior to maturity to realize capital gains or losses or to shorten average Pool maturity;
3. Withholding earnings otherwise payable to participants;
4. Establishing a net asset value per share by using available market quotations;

5. Increasing, reducing, suspending or deferring the imposition of the fee to administer the Pool.

XIII. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed to earn a market average rate of investment income during a market/economic environment of stable interest rates. Portfolio performance will, on a regular basis, be compared to appropriate established benchmarks set by the Treasurer's Office and SCFC.

Given this strategy, the benchmark for investment considerations shall be a benchmark which reflects the prominent and persistent characteristics of the portfolio over time. The benchmark may be adjusted periodically as material changes take place in regard to asset allocation and/or weighted average maturity. Currently, the Spokane County Investment Pool utilizes the ICE BofAML 0-3 Year Treasury Index as its benchmark.

XIV. Investment Fee Charges to County Funds

RCW 36.29.020 allows the charging of an investment fee for providing service of investing funds. Five percent of the interest earnings, with an annual maximum of fifty dollars, on each transaction authorized by each resolution of the governing body shall be paid as an investment service fee. If the fee amounts to five dollars or less, the Treasurer may waive such fee. RCW 28A.320.320 allows the charging of an investment fee for school districts. Five percent of the interest earnings, with an annual maximum of fifty dollars, on any transactions authorized by each resolution of the board of school directors shall be paid as an investment service fee to the office of county treasurer when the interest or earnings becomes available to the school district or an amount as determined pursuant to RCW 36.29.022 and 36.29.024.

RCW 36.29.024 allows for the charging of investment fees which reimburse the Treasurer's Office for the actual expenses incurred in administering the investment function under a local pooling program. This fee is allocated to pool participants in a manner which equitably reflects the differing amounts and differing periods of time the amounts were placed in the county pool. Any investment fees collected in excess of actual expenses will be rebated to the pool participants on an annual basis.

XV. Reporting

The Spokane County Treasurer shall provide monthly investment reports to the Finance Committee that provide a clear picture of the status of the current investment portfolio and transactions made over the last reporting period. This management report will be prepared in a manner which will allow the Finance Committee to ascertain whether investment activities during the reporting period have conformed to the investment policy. Appropriate sections of this report will be provided to all pool participants.

A statement of the market value of the portfolio shall be issued at least monthly and provided to SCFC. This will ensure that a review has been performed on the investment portfolio in terms of value and subsequent price volatility. The market values should be obtained from a reputable and independent source.

SPECIFIC REQUIREMENTS

Book Yield
Holdings Report (including mark to market)
Transactions Report
Weighted Average Maturity or Duration

Compliance Report
Net Asset Value

XVI. INVESTMENT POLICY ADOPTION

The Spokane County Treasurer's Investment Policy shall be approved pursuant to RCW 36.48.070.

XVII. GLOSSARY OF TERMS

Accrued Interest: The interest accumulated on a security since the issue date or since the last coupon payment. The buyer of the security pays the market price plus accrued interest.

Agency Securities: Government sponsored enterprises of the US Government.

Basis Point: One-hundredth of 1 percent. One hundred basis points equals 1 percent.

Bear Market: A period of generally pessimistic attitudes and declining market prices. Compare to Bull Market.

Bond: An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and it is usually secured by specific assets. Most bonds have a maturity of greater than one year and generally pay interest semiannually. See Debenture.

Bond Anticipation Notes (BANs): Short-term notes sold by states and municipalities to obtain interim financing for projects that will eventually be financed by the sale of bonds.

Bond Discount: The difference between a bond's face value and a selling price, when the selling price is lower than the face value.

Broker: An intermediary who brings buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

Bull Market: A period of generally optimistic attitudes and increasing market prices. Compare Bear Market.

Buyer's Market: A market in which supply is greater than demand, giving buyers an advantage.

Call: An option to buy a specific asset at a certain price within a certain period of time.

Callable: A bond or preferred stock that may be redeemed by the issuer before maturity for a call price specified at the time of issuance.

Call Date: The date before maturity on which a bond may be redeemed at the option of the issuer.

Collateral: Securities or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: Short-term, unsecured, negotiable promissory notes issued by businesses.

Commission: Broker's or agent's fee for purchasing or selling securities for a client.

Core Fund: Core funds are defined as operating fund balance which exceeds the County's daily liquidity needs. Core funds are invested out the yield curve to diversify maturity structure in the overall portfolio. Having longer term investments in a portfolio will stabilize the overall portfolio interest earnings over interest rate cycles.

Coupon Rate: The annual rate of interest that the issuer of a bond promises to pay to the holder of the bond.

Coupon Yield: The annual interest rate of a bond divided by the bond's face value and stated as a percentage. This usually is not equal to the bond's current yield or its yield to maturity.

Current Maturity: The amount of time left until an obligation matures. For example, a one-year bill issued nine months ago has a current maturity of three months.

Current Yield: The coupon payments on a security as a percentage of the security's market price. In many instances the price should be gross of accrued interest, particularly on instruments where no coupon is left to be paid until maturity.

CUSIP: A CUSIP number identifies securities. CUSIP stands for Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

Dealer: An individual or firm that ordinarily acts as a principal in security transactions. Typically, dealers buy for their own account and sell to a customer from their inventory. The dealer's profit is determined by the difference between the price paid and the price received.

Delivery: Either of two methods of delivering securities: delivery vs. payment and delivery vs. receipt (also called "free"). Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

Discount: The reduction in the price of a security; the difference between its selling price and its face value at maturity. A security may sell below face value in return of such things as prompt payment and quantity purchase. "At a discount" refers to a security selling at less than the face value, as opposed to "at a premium, "when it sells for more than the face value.

Duration: A measure in years of the time necessary for the bond's price to be repaid by the bond's total cash flows.

Fannie Mae: Trade name for Federal National Mortgage Association (FNMA).

Finance Committee: The Spokane County Finance Committee includes the Chair of the Board of County Commissioners, County Auditor, and County Treasurer.

Financial Industry Regulatory Authority (FINRA): A self-regulatory organization that regulates the over-the-counter market.

Freddie Mac: Trade name for Federal Home Loan Mortgage Corporation (FHLMC).

Full Faith and Credit: Indicator that the unconditional guarantee of the United States government backs the repayment of a debt.

General Obligation Bonds (GOs): Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.

Ginnie Mae: Trade name for the Government National Mortgage Association (GNMA).

Government Bonds: Securities issued by the federal government; they are obligations of the U.S. Treasury. Also known as "governments."

Interest: Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

Interest Rate: The interest payable each year on borrowed funds, expressed as a percentage of the principal.

Investment Portfolio: A collection of securities held by a bank, individual, institution, or government agency for investment purposes.

Investment Securities: Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

Investor: A person who purchases securities with the intention of holding them to make a profit.

Liquidity: The ease at which a security can be bought or sold (converted to cash) in the market. A significant number of buyers and sellers and a high volume of trading activity are important components of liquidity.

Liquidity Component: A percentage of the total portfolio specifically dedicated to providing liquidity needs for the County.

Mark to Market: Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.

Municipals: Securities, usually bonds, issued by a state or its agencies. The interest on “munis” is usually exempt from federal income taxes and state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency’s taxation powers.

Non-Discretionary Registered Investment Advisor: A registered investment advisor who makes investment recommendations to the client which are approved by the client prior to execution.

Par Value: The value of a security expressed as a specific dollar amount marked on the face of the security, or the amount of money due at maturity. Par value should not be confused with market value.

Portfolio: A collection of securities held by an individual or institution.

Prudent Person Rule: A long-standing common-law rule that requires a trustee who is investing for another to behave in the same way as a prudent individual of reasonable discretion and intelligence who is seeking a reasonable income and preservation of capital.

Quality: A suitable authorized investment that meets the investment strategy of the investment pool.

Quotation or Quote: The highest bid to buy or the lowest offer to sell a security in any market at a given time. See Bid and Asked.

Spread: The difference between two figures or percentages. For example, the difference between the bid and asked prices of a quote or between the amounts paid when a security is bought and the amount received when it is sold.

Trade Date: The date when a security transaction is executed.

Trader: Someone who buys and sells securities for a personal account or a firm’s account obtain a short-term profit.

Trading Market: The secondary market for bonds that have already been issued. See Secondary Market.

Treasury Bill (T-Bill): An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount.

Treasury Bonds and Notes: Obligations of the U.S. government that bear interest. Notes have maturities of one to ten years; bonds have longer maturities.

Yield: The annual rate of return on an investment, expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield, or yield to maturity, is the current income yield minus any premium above par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Yield to Maturity: The average annual yield on a security, assuming it is held to maturity; equals to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond.