CHAPTER 4
INVESTMENTS

Authority and Oversight

Authority to Invest

The County Treasurer shall invest all funds of the county or any special district in the Treasurer's custody, not needed for immediate expenditure, in a manner consistent with appropriate statutes (RCW 36.29.010(8)). When directed by the district, County Treasurers are authorized to invest the public funds in their safekeeping for the benefit of the districts they serve per RCW 36.29.020 and RCW28A.320.300 for School Districts.

Oversight

The County Finance Committee is authorized by RCW 36.48.070. The County Treasurer, the County Auditor, and the chair of the county legislative authority shall constitute the county finance committee. The County Treasurer chairs the committee and the County Auditor serves as secretary. This committee provides oversight for the County Treasurer's investment activities. It approves the investment and debt policies for each county. It makes appropriate rules and regulations for carrying out the provisions of RCW 36.48.010 through 36.48.060 not inconsistent with the law. The Finance Committee authorizes the County Treasurer to invest residual cash for the benefit of the General Fund.

"Home rule" charter counties may have a slightly different organizational structure, but they will have established similar committees to oversee the investment function.

II. Prudence

Most County Treasurers hold political office or work in a political environment. When deciding the risk level the Treasurer is willing to accept and defend in maximizing investment returns, the Treasurer should objectively assess their own expertise and that of their staff. The Treasurer should be realistic about their knowledge and risk tolerance. This section of the manual is written from a conservative and cautionary approach to assist and guide the newer or less experienced Treasurer.

Advice from the *Guide to Public Funds Investing for Local Governments* (OST June 2016) discusses prudence in investing:

> "What does a successful investment program for public funds look like? It focuses on **safety** and **liquidity** of funds as its primary objectives, seeks to maximize **return**, and operates within the bounds of **legality**. It employs defined strategies and procedures in pursuit of these objectives. Insofar as investing involves both opportunities and risks, it is managed to ensure the safety and availability of public funds, with the secondary objective of generating an additional revenue stream. Local government investment managers should adhere to the "Prudent Person" standard, which says that investment decisions must be suitable for the risk and return profile and the time horizon of the investor."

Safety and liquidity are the primary objectives for public funds investors. A strong investment program will go further to focus on performance. In practice, investment performance is the product of a strong investment process. The main elements of the investment process are controlling risk, identifying a reasonable expectation around expected return, and controlling costs (i.e. inefficient or excessive trading). These elements combine to form a mechanism to optimize risk and return. Performance monitoring using an appropriate benchmark enables managers to see whether their investment strategy is effective.

Local government investors with limited resources or experience may find that caution is the best approach in the management of investment performance. Without specific expertise in the area of credit analysis, for example, investments in certain legally permitted instruments may not be a good idea, as adequate control of risk is not possible. Some investors may find that they are best able to structure a successful program by working with an outside advisor who brings experience in developing strategy and monitoring performance".

Treasurers of non-pooling Counties generally find it most effective to utilize the Washington State LGIP and/or public funds investment checking accounts for their short-term liquidity needs.

The first step to understanding the responsibilities and considerations of a well thought out investment program should include reading the *Guide to Public Funds Investing for Local Governments* by the Office of the Washington State Treasurer.

Guide-to-Public-Funds-Investing-in-WA-REV-Mar-2021.pdf

III. Best Practices

In January 2017 WSACT members approved the *WSACT Best Practice Recommendations for Investing* *****Are new best practices being drafted currently?*****

Recommendations for Investing

WSACT Best Practice Recommendations for Investing covers a range of recommendations for County Treasurers covering the investment process, investment policy development, and ongoing education. This (along with the Guide-to-Public-Funds-Investing-in-WA-REV-Mar-2021.pdf*)* is a key read for all County Treasurers.

The Government Finance Officers Association (GFOA) is also an excellent resource for best practices on treasury and investment management practices. http://www.gfoa.org/best-practices

Other professional resources for public fund investing best practices include the Government Investment Officers Association (GIOA), Association of Public Treasurers of the United States & Canada (APTUSC), and the Washington Public Treasurers Association (WPTA).

Eligible Investments

A current list of eligible investments, including the RCW cites for them is available on the Washington State Treasurer's website at this link: Guide-to-Public-Funds-Investing-in-WA-REV-Mar-2021.pdf (See Appendix I).

Although statutes allow an extensive list of eligible investments, it may be prudent to limit certain instruments wholly or partially when developing or amending the Treasurer's Investment Policy.

Developing an Investment Policy

Per RCW 36.48.070, the Finance Committee shall approve the Treasurer's Investment Policy. The Treasurer's Investment Policy should provide written guidance to staff. It should contain the recommendations and limitations addressed here and in the *WSACT Best Practice Recommendations* document.

The Washington Public Treasurers Association (WPTA), the Government Finance Officers Association (GFOA), the Association of Public Treasurers of the US & Canada (APT), and the Government Investment Officers Association (GIOA) all provide excellent guidance for developing a comprehensive policy that addresses issues important to investing public funds. Both WPTA APT, and GIOA review and certify written policies. This helps substantiate that the Treasurer's policy contains appropriate safeguards for the investing of public funds. **All Treasurers, regardless of the size of their investment portfolio, are strongly encouraged to seek WPTA investment policy certification**.

Links: WPTA: http://www.wpta.us/cert_invest.html
GFOA: http://www.gfoa.org/investment-policy
GIOA: Investment Policy Certification – GIOA

Education

The mission statement of the Washington State Association of County Treasurers states the purpose of our association is to "provide a forum for all County Treasurers to educate, advocate, mentor and support the creation of effective treasury systems which honor the public trust." Because of the ever-changing complexities of managing public funds, our association has adopted the voluntary investment education program to equip the County Treasurers and others in public trust in meeting these demands of prudent investing and reporting of public funds. See the Recommended Investment Education Program section of the WSACT Best Practice Recommendations for Investing for a recommended education plan and a current list of venues and independent organizations through which to obtain the recommended classes. As always, other County Treasurers are an excellent resource when asking for advice and gathering information. Other government investment professionals at the state or city level can also be good sources of information.

IV. Methodology: Pooling and/or Fund by Fund Investing

County Treasurers can invest public funds using the traditional fund by fund method, by pooling, or using a combination of each.

If the Treasurer is investing using a fund by fund method, the appropriate governing body of the districts (or their designee) must direct the Treasurer to invest their funds, must provide the amount to be invested from a specific accounting fund, and must specify a maturity date (AGO No. 20, 1974). The Treasurer will then purchase an eligible investment instrument appropriate for the given amount and maturity date. If a district fails to request investment of their funds, the Treasurer should, under the direction of the Finance Committee, invest this residual cash. The interest from the investment of those residual funds is deposited into the County's General Fund (RCW 36.29.020).

Though districts may request certain types of instruments, the Treasurer has the legal authority and responsibility to select an appropriate instrument and firm to fulfill fiduciary responsibilities (RCW 36.29.020). All instruments are to be held in the Treasurer's name for the benefit of each district.

When using the fund by fund method of investing, the Treasurer is authorized to charge a fee of 5% of the earnings with an annual maximum of $50 on each transaction authorized by the governing body. (RCW 36.29.020).

In addition to investing money on a fund by fund basis as described in the previous paragraphs, Treasurers are authorized by RCW 36.29.022 to pool monies from the different entities they serve or from the different accounting funds of those entities for the purpose of investing. Participation in the pool is at the direction of the governing body of each district and/or authorized by an agreement between the Treasurer and the agency). RCW 36.29.024 allows Treasurers to deduct a fee to cover the actual expense of operating a pool. The pooling fee is typically applied as a reduction in rate of return (interest earned) and varies based on the size of the pool and the cost of the service. In order to fairly distribute the fees amongst pool participants, this fee is generally calculated as a percentage of the agency's average invested balance.

Treasurers may use a combination of both methods and establish two or more pools. Appropriate accounting methods and software systems must be in place to segregate methods so that fees can be assessed and earnings properly distributed. Some treasurers have "shared" investments and can do an in-house buy out of a fund or district's share to meet daily cash needs. However, when buying investments between funds, one must be aware that one fund cannot benefit another (RCW 43.09.210).

For a pooling county, an example of a need to have both directed (fund by fund) investments and pooled investments would be the purchase of an investment to comply with bond covenants of the agency's debt.

Considerations and Concerns when Pooling

Pooling allows the County Treasurer to invest based on the high level and stable cash flows of Treasurer's cash balances versus the more fluctuating and smaller amounts in each accounting fund. Because of economies of scale, the Treasurer is usually able to purchase from dealers at lower purchase prices (higher returns). Pooling can be more efficient by reducing the amount of paper (resolutions, investment authorizations, and investment verification documents) that must flow between the Treasurer and district offices.

As stated above, another advantage to pooling is providing the Treasurers with non-budgeted money (under the Treasurer's control, like foreclosure fees). This money allows the Treasurer to hire qualified investment personnel, install investment software, hire professional investment services and pay other actual related expenses. The governing bodies of Treasurer's districts must authorize investment in the pool and give their consent to deduct the fee charged for covering actual expenses. This is normally accomplished by having an interlocal agreement in place with each pool participant.

Pooling can require additional investment sophistication (please refer to the *Best Practice Recommendations* regarding recommendations for investment education). The Treasurer's investment policy should reflect the complexity of operating a pool and give clear instruction regarding authorizations and restrictions. Separate operating procedures should also be established that reflect the overall philosophy and strategy of the Treasurer, Finance Committee, and investment manager(s). Aside from the usual investment risk (considerations of diversification, custody, and collateral), the Treasurer must also address the following issues and define several strategies before becoming a pool manager:

Infrastructure Enhancements

The Treasurer must purchase, or develop in-house, a suitable accounting system to not only account for the portfolio but also calculate the distribution of earnings to participants on a pro rata basis. The cost of a system may be expensed through the fees collected, but may need a start-up budget from the County. This could be in the form of an interfund loan. Another infrastructure enhancement includes establishing a custodial account in which securities are held in safekeeping on behalf of the portfolio and transacts on a delivery versus payment system.

Short-Term, Intermediate or Long-Term Pool(s)

The Treasurer must first decide what type of pool(s) to offer. The longer the average maturity, the greater the risk and the higher the return. The longer-term pools respond more slowly than short-term pools (LGIP, etc.) to rising interest rates and conversely hold their rates longer in a falling rate environment. In a rising rate environment, the tendency to lag behind LGIP can become a political issue for Treasurers. Many Treasurers have chosen to provide an intermediate pool and use LGIP for the short-term portion of that intermediate pool.

Additional Reporting Requirements

When choosing to pool with average maturity over 90 days, the Treasurer must report the market value of the pool to the participating districts that are preparing comprehensive financials (GASB 31). Even with a policy of holding to maturity, swings in market value can have reporting implications in both a rising and falling interest rate environment, which can result in political repercussions. Managing duration can mitigate large swings in market value.

GASB 40 requires disclosures for investment pools related to the pool's exposure to custodial risk, concentrations of credit risk, interest rate risk, and foreign currency risk. The Treasurer must also briefly describe the adopted investment policies that are related to these risks. If no policy has been adopted, then that fact must be disclosed.

GASB 72 and 79 have additional reporting requirements as well.

Forecasting Cash Flow to Meet Liquidity Needs of Pool Participants

When pooling, the responsibility for ensuring adequate liquidity for all pool participants lies with the Treasurer. A review of historical balances can often be a useful starting place. Most Treasurers will show the standard "M" curve with cash highs in April/May and October/November (property tax proceeds). Good communication with districts is needed to ascertain large, unexpected revenues (e.g., bond issues) and expenditures (e.g., property purchase for a new school). Besides estimating the cash needed, it is recommended Treasurers maintain a percentage of the portfolio in overnight investments such as the LGIP of an appropriate size for each Treasurer's operation. This will provide for unexpected cash needs not communicated by the districts or a potential delay in an anticipated revenue. This is an important way to help maintain pool stability and ensure that a Treasurer is not forced to sell a security before maturity, which could generate a realized loss. Both the *WSACT Best Practices* and Guide to Public Funds Investing contain additional information regarding cash flow forecasting.

Pool Stability

Pool stability is critical to the ongoing success of a pool. A forced sale at a loss will negatively affect all pool participants, not just the participant making an unexpected withdrawal. The Treasurer may want to limit how quickly a district can withdraw large sums from the pool to prevent a "run" requiring a Treasurer to sell instruments at a loss to meet demand for cash withdrawals. It is recommended to disclose any restrictions on pool withdrawals in the investment policy, operating agreement, and/or in the pool participant agreements with the districts. Other keyways to maintain pool stability include; maintain adequate liquidity, invest in high credit quality investment instruments, diversify, manage duration, and limiting non-captive pool participants.

Pool Participation

The Treasurer should consider who is eligible to participate in the investment pool. Entities for which the Treasurer acts as *ex officio* treasurer may be less likely to exit the pool than entities that can act as their own treasurer (e.g., cities). In general, a county pool where most of the money comes from its own agencies and its junior districts is exposed to less risk of a "run" than those with more "outside" money.

V. General Considerations and Concerns

Buy and hold versus active management: The Treasurer must decide how actively to manage their funds. Buy and hold is buying at the best price and then holding-to-maturity. To actively manage a portfolio, the Treasurer must have or hire the expertise to analyze the market and the instruments in inventory to determine if, and when, it is advantageous to sell prior to the stated maturity. Actively reconstructing and rebalancing a portfolio brings issues related to price risk. Managing duration (a measure of price sensitivity for changes in interest rates) can reduce price risk. There is also potential political risk associated with selling securities (especially when selling at a loss) even if it is in the best interest of the portfolio and pool participants.

As with any investor, the Treasurer should never purchase an instrument they do not fully understand. It is important to choose brokers that are willing to take the time and effort to educate you on what you are buying and to obtain some independent research as well.

To show due diligence, it is recommended the Treasurer obtain a market price when buying or selling an instrument. It may be possible to document market conditions using a market information reporting system such as Reuters or Bloomberg. It is important to retain that documentation for review purposes.

Advice and Assistance

It can be challenging to hire qualified employees at the wages Counties usually pay. This seems particularly true for investment staff since a skilled applicant can generally make significantly higher wages in the private sector. However, the uncertainty of the private sector jobs can sometimes make the government sector look more appealing. Politically, it helps to be generating special purpose revenue when requesting a position and pay level that will attract quality staff.

Depending on the skill and expertise of staff available, along with the desired goals and objectives of your investment program, it may be appropriate to consider outside professional services such as a discretionary or non-discretionary investment advisor to provide direction. It is important to note the inherent conflict of interest in relying on someone who is trying to sell something. Note: Brokers often suggest instruments their firm owns and are trying to decrease their own exposure to. For this reason, it is a best practice to develop procedures for evaluating broker/dealers and to transact with more than one broker/dealer for the county's investments.

Important guidance regarding investment advisors from *Guide to Public Fund Investing for Local Governments*:

> Most public fund managers in Washington State do not have the authority to delegate to an external entity those management functions that require the exercise of discretion or judgment in which factual information is weighed and personal judgment is exercised in order to reach a conclusion, e.g., to enlist the services of an investment manager. However, they can enlist the services of investment advisors and the scope of services they may provide can include nearly everything except making the decision to purchase or sell securities. For example, an advisor could recommend the purchase of a particular security. Should the entity authorize the purchase of that security the advisor could then act on your authorization and purchase that security for your entity. For a more extensive discussion, see section VII of the *Guide*.

VI. Investment Terminology and Definitions

Agencies – Federal agency and/or government-sponsored enterprise issued securities (GSE). Common GSE issuers include Federal Farm Credit Bank, Freddie Mac, Fannie Mae, and Federal Home Loan Bank.

Ask Price – The price at which securities are offered for an investor to purchase

Accrued Interest – Interest due on a security from the issue date or from the most recent interest payment date to the present. The buyer of the security pays principle plus accrued interest.

ACH – The Automated Clearinghouse provides next day and future settlements of funds. Most investment transactions require same day wire transfers.

Bank (or Fed) Wire – A same-day electronic transfer of funds between two financial institutions.

Bankers Acceptance – A draft or bill of exchange accepted by a bank or trust company. Once accepted, the bank or trust company guarantees payment of the bill.

Basis Point – A measure of an interest rate, i.e. 1/100 of 1 percent, or .01.

Benchmarks – Measures established to provide an indication of investment performance compared to expectations and the performance of like-investment activity and in determining whether the portfolio is achieving a market rate of investment income. Benchmarks also indicate if restructuring of the portfolio is advisable.

Bid Price – The price offered by a buyer of securities.

Book Entry Securities – U.S. government and federal agency securities that do not exist in definitive (paper) form; they exist only in computerized files maintained by the Federal Reserve Bank.

Book Value – The amount at which an asset is carried on the books of the owner. The book value of an asset does not necessarily have a significant relationship to market value.

Broker – Person or firm acting as intermediary buyer and seller.

Callable Bond – A bond that may be called (redeemed) prior to the stated maturity date by the issuer. Examples include American style (may be called at any time), European style (one time call option), or Bermuda style (hybrid of American and European).

Certificate of Deposits (CD) – A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

Collateral – Securities, evidence of deposit or other property that a borrower pledges to secure repayment of a loan or security. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper – An unsecured obligation issued by a corporation or bank to finance its short-term credit needs. Maturities range from 2 to 270 days and can be issued either at a discount or it can be interest bearing.

Comprehensive Annual Financial Report (CAFR) – The official annual report for the county. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed statistical section.

Corporate Note – Debt security issued by public or private corporations instead of a government. Corporate notes are considered higher risk as they do not carry the explicit or implicit backing of the US government securities. As a result, they will almost always deliver higher returns, but investment in corporate notes should only be undertaken by local governments with the ability to perform ongoing credit analysis on the issuer.

Coupon – (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

Credit Risk – The risk that another party to an investment transaction will not fulfill its obligations. Credit risk can be associated with the issuer of a security, a financial institution holding the entity's deposit, or a third party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any single investment type or with any one party.

Custodian - An independent third party (usually bank or trust company) that holds securities in safekeeping as an agent for the county and provides delivery vs. payment settlement services.

Debenture – A bond secured only by the general credit of the issuer.

Default – Failure to pay debt interest or principle when due, or to perform any other obligation required by contract.

Delivery – The providing of a security in an acceptable form to the agent independent of the seller. Acceptable forms can be physical securities or the transfer of book entry securities.

Delivery vs. Payment – Delivery vs. Payment is delivery of securities with an exchange of money for the securities.

Depository Trust and Clearing Corp. – A national trust corporation holding securities in trust and settling transactions as an independent third-party.

Derivatives – (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

Discounts and Premiums – A premium is the dollar amount by which the market price exceeds a security's par value, while a discount is the dollar amount by which the market price is below par value.

Discount Securities – Debt that is issued at a discount and matures at par. For example, US Treasury Bills.

Diversification – Dividing investment funds among a variety of securities offering independent returns.

Duration – Price sensitivity of fixed income securities for given changes in interest rates.

Fannie Mae (FNMA) – Trade name for the Federal National Mortgage Association. FNMA is a federal corporation working under the auspices of the HUD. It is the largest single provider of residential mortgage fund and guarantees that all security holders will receive timely payment of principal and interest.

Farm Credit (FFCB) – Federal Farm Credit Banks. A nationwide system of lending institutions that provides credit and related services to farmers, ranchers, producers and harvesters of aquatic products and other farm related businesses.

Federal Credit Agencies – Agencies of the Federal Government designed to supply credit to various classes of institutions and individuals.

Federal Deposit Insurance Corp. - A Federal institution that insures bank deposits. The current limit is $250,000 per insurable fund.

Federal Funds – Non-interest bearing deposits held by member banks at the Federal Reserve. Also refers to immediately available funds in the clearing sense.

Federal Funds Rate – The rate of interest at which Fed Funds are traded between banks. Fed Funds are excess reserves held by banks that desire to invest or lend them to banks needing reserves. The particular rate is heavily influenced through the open market operations of the Federal Reserve Board. Also referred to as the "Fed. Funds Rate."

Federal Home Loan Banks (FHLB) – Government sponsored wholesale banks which lend funds and provide banking services to member commercial banks, thrift institutions, credit unions, and insurance companies.

Federal Reserve System – The central bank of the United States created by Congress and consisting of a seven member Board of Governors, 12 regional banks, and about 5,700 member banks.

Floating Rate – Any security where the interest rate changes on a periodic basis.

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

Futures Market – A market in which contracts for future delivery of a commodity or security are bought and sold. Note: Futures contracts are not allowable investments.

Ginnie Mae (GNMA) – Trade name for the Government National Mortgage Association. Security holder is protected by full faith and credit of the U.S. Government using what is described as “pass-throughs”.

Interest Rate Risk – The risk associated with declines or rises in interest rates that cause an investment in a fixed-income security to increase or decrease in market value. Bond prices move inversely to yields. The risk that the market value of an investment or collateral protecting a deposit or securities underlying a repurchase agreement will decline.

Investment Risk – Degree of uncertainty of return on investment.

Leveraged Investments – The amplification in the return earned on funds when an investment is financed partly with borrowed money.

Liquidity - The ability to convert a security into cash promptly without a substantial loss of value.

Local Government Investment Pool (LGIP) – The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Value – The price at which a security is currently trading and could presumably be purchased or sold. A bond’s price is a measure of the present value of all discounted future cash flows.

Master Repurchase Agreement - A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreements that establish each party’s rights and duties.

Maturity – The date upon which the principal or stated value of an investment becomes due and payable.

Money Market – The market in which short-term debt instruments (bills, commercial paper, bankers’ acceptances, etc.) are issued and traded.

Offer – The price asked by a seller of securities. (When you are buying securities, you ask for an offer.)

Open Market Operations – Purchases and sales of securities by the New York Federal Reserve to influence the volume of money and credit in the economy.

Par Value - The value imprinted on a security, such as a stock certificate or bond, used to calculate a payment, such as a dividend or interest; face value.

Portfolio – Collection of securities held by an investor.

Primary Dealers – When issuing government debt, the Federal Reserve will deal directly only with dealers that it designates as primary or recognized dealers. Primary dealers must have adequate capital relative to the positions they assume in Treasury securities and a reasonable amount of volume (1% of total market) in Treasury securities.

Price Risk – The risk associated with the change in market value from the fluctuations in interest rates. Bond prices move inversely to yields.

Prudent Person Rule – States the investor in a security buy only those instruments a person of discretion and intelligence seeking a reasonable income and preservation of capital would buy.

Qualified Public Depository – A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated, for the benefit of the commission, eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

Rate of Return – The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

Repurchase Agreements – A substitute for an outright investment in securities. A Repo consists of a sale of securities and a simultaneous commitment by the bank to repurchase the security from the investor at a specified price, computed to produce an agreed upon rate of return.

Reverse Repurchase Agreements – The opposite of a regular repurchase agreement. In a "reverse", the County initially owns securities and the bank or dealer temporarily exchanges cash for this collateral under an agreement to sell them back on a specified date.

Risk – Degree of uncertainty of return on an asset.

Safekeeping – A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection, or in the case of book entry securities, are held and recorded in the customer's name and are inaccessible to anyone else.

Secondary Market – A market made for the purchase and sale of outstanding issues following the initial distribution.

Security & Exchange Commission – Agency created by Congress to protect investor in securities transactions by administering securities legislation.

Structured Notes – Notes issued by Government Sponsored Enterprises (FHLB, FNMA, FHLMC, etc.) which have imbedded options such as call features, step-up coupons, or floating rate coupons in their debt structure.

Supranational agency bonds – US dollar-denominated bonds of quasi-governmental organizations that exist in multiple countries to promote economic development. Local governments in Washington State are permitted to invest in those supranational agencies that have the US government as their largest shareholder. Supras are highly rated and have similar structures to US Agency bonds. One of the most commonly invested and most liquid of these is the International Bank for Reconstruction and Development (IBRD, or World Bank).

Swap – Selling of one issue and buying another.

Treasury Bills – A discount security used by the government to manage federal debt that does not pay any coupon interest. Instead, interest consists of the difference between a discounted buying price and the par value paid by the Treasury at maturity.

Treasury Bonds – Long-term coupon-bearing U.S. Treasury securities issued as direct obligation of the government and having initial maturities from twenty to thirty years.

Treasury Notes – Medium-term coupon-bearing securities issued as direct obligation of the U.S. Government and having initial maturities from two to ten years.

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

APPENDIX 1 – WSACT INVESTMENT BEST PRACTICES

See next pages.