

## 513 – Investment Policy

### 1.0 Purpose

The intent of the Investment Policy of the William Shore Metropolitan Park District (District) is to define the parameters within which funds are to be managed. In methods, procedures and practices, the policy formalizes the framework for the District's investment activities that must be exercised to ensure effective and judicious fiscal and investment management of the District's funds. The guidelines are intended to be broad enough to allow the investment officer to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

### 2.0 Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements, including RCW 39.58 and RCW 39.59.

### 3.0 Scope

This policy applies to activities of District with regard to investing the financial assets of all funds. In addition, funds held by trustees or fiscal agents are excluded from these rules; however, all funds are subject to regulations established by the state of Washington. Except for funds in certain restricted and special funds, the District commingles its funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

### 4.0 General Objectives

The primary objectives, in priority order, of investment activities shall be:

#### 1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The goal will be to mitigate credit risk and interest rate risk.

#### 2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

#### 3. Return

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints of safety and liquidity needs.

#### 4. Public Trust

All participants shall act as custodians of the public trust. Investment officials shall recognize that the portfolio is subject to review & devaluation. The programs shall be designed & managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio, it must be recognized that occasional measured losses are inevitable & must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

#### 5. Special Considerations

The District seeks to promote local economic development through various programs and activities. Included is a program of rewarding local financial institutions that increase their commitments to private economic growth and local housing investment.

### 5.0 Standards of Care

#### 5.1 Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in

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accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The "prudent person" standard states that, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

### 5.2 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the District.

### 5.3 Delegation of Authority and Responsibilities

#### 5.3.1 Governing Body

The governing body will retain ultimate fiduciary responsibility for the portfolios. The governing body will receive monthly reports, designate investment officers and [annually] review the investment policy making any changes necessary by adoption.

#### 5.3.2 Investment Officers

Authority to manage the investment program is granted to the District Treasurer hereinafter referred to as investment officer. Responsibility for the operation of the investment program is hereby delegated to the Investment Officer who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy. Officers will prepare monthly investment reports and other special reports as may be deemed necessary. All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

#### 5.3.3 Investment Committee

The District may seek to establish an investment committee to provide guidance to investment officers.

#### 5.3.4 Adviser

The District may engage the services of one or more external investment managers to assist in the management of the entity's investment portfolio in a manner consistent with the entity's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

## 6.0 Authorized Financial Institutions, Depositories, and Broker/Dealers

### 6.1 Public Deposit Protection Commission (PDPC)

The PDPC maintains of financial institutions and depositories authorized to provide investment services in the State of Washington for public funds. The District will only utilize Financial Institutions that are approved and listed by the PDPC.

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### 6.2 Broker/dealers

A list will be maintained of approved security broker/dealers selected by conducting a process of due diligence. These may include 'primary' dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

Broker Dealers who desire to become qualified for investment transactions must supply the following (as appropriate):

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of FINRA certification
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the District's investment policy.
- Evidence of adequate insurance coverage.

A periodic review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer.

### 6.3 Minority, Emerging and Community Financial Institutions

From time to time, the investment officer may choose to invest in instruments offered by minority, emerging and community financial institutions. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law.

### 6.4 Competitive Transactions

6.4.1 The investment officer shall obtain competitive bid information on all purchases of investment instruments purchased on the secondary market. A competitive bid can be executed through a bidding process involving at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.

6.4.2 If the Entity is offered a security for which there is no readily available competitive offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price.

6.4.3 If the Entity hires an investment adviser to provide investment management services, the adviser must provide documentation of competitive pricing execution on each transaction. The investment adviser will retain documentation and provide upon request.

## 7.0 Safekeeping and Custody

### 7.1 Delivery vs. Payment

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the District's safekeeping institution prior to the release of funds.

### 7.2 Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution selected by the District. All securities will be evidenced by safekeeping receipts in the District's name. The safekeeping institution shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011.)

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### 7.3 Internal Controls

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse. Specifics for the internal controls shall developed and maintained and updated periodically by the Investment Officers.

## 8.0 Suitable and Authorized Investments

### 8.1 Investment Types and Credit Guidelines

Consistent with the GFOA Policy Statement on State and Local Laws Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state and local law where applicable. If additional types of securities are approved for investment by public funds by state statute, they will not be eligible for investment by the District until this Policy has been amended and the amended version adopted by the governing body. Typical types of securities include:

- U.S. Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the payment of principal and interest.
- Federal Agency or U.S. government sponsored enterprises (GSE) obligations, participations or other instruments
- Bankers' acceptances;
- Federally insured time deposits (Non-negotiable certificates of deposit) in state or federally chartered banks, savings and loans, or credit unions, provided that the amount per institution is limited to the maximum covered under federal insurance;
- Time deposits (Non-negotiable certificates of deposit) in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with state law
- Negotiable certificates of deposit (NCDs)
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized statistical rating organization;
- Investment-grade obligations of state, provincial and local governments and public authorities;
- Fully collateralized Repurchase agreements collateralized in compliance with this Policy, governed by a SIFMA Master Repurchase Agreement and with a maximum maturity. Capital project funds may be invested in a single flex repurchase agreement with a maximum stated maturity that shall be matched to the expenditure plan;
- SEC registered money market mutual funds; and
- Local government investment pools.

If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Investment Officer shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Investment Officer will apply the general objectives of safety, liquidity, yield and legality to make the decision.

### 8.2 Collateralization

Where allowed or required by state law and in accordance with full collateralization will be required on all demand deposit accounts, including checking accounts and negotiable (as authorized by respective state statutes) and non-negotiable certificates of deposit.

#### Authorized Collateral

Acceptable collateral for bank deposits and repurchase agreements shall include only:

- obligations of the U.S. Government, its agencies and GSEs, including mortgage backed securities

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- obligations of any state, city, county or authority rated at least AA by two nationally recognized statistical rating organizations.

### 9.0 Investment Parameters

#### 9.1 Mitigating credit risk in the portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The District shall mitigate credit risk by adopting the following:

##### 9.1.1 Diversification

The investments shall be diversified by:

- limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- limiting investment in securities that have higher credit risks,
- investing in securities with varying maturities, and
- continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

#### 9.2 Mitigating market risk in the portfolio

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The District recognizes that, over time, longer-term/core portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The District shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The District further recognizes that certain types of securities, including variable rate securities, securities with principal pay-downs prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The District, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The District shall maintain a minimum of three months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements;
- The maximum percent of callable securities in the portfolio shall be 15%;
- The maximum stated final maturity of individual securities in the portfolio shall be five years, except as otherwise stated in this policy; and,
- Liquidity funds will be held in the State Pool or in money market instruments maturing one year and shorter.
- Longer term/Core 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 higher quality and liquid securities.
- The duration of the portfolio shall at all times be approximately equal to the duration (plus or minus 10%) of a Market Benchmark Index selected by the District based on the District's investment objectives, constraints and risk tolerances.

### 10.0 Performance Standards/ Evaluation

The District's cash management portfolio shall be designed with the objective of regularly meeting or exceeding a selected performance benchmark, which could be the average return on three-month U.S. Treasury bills, the state investment pool, a money market mutual fund or the average rate of Federal

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funds. These indices are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return.

### 11.0 Reporting/Disclosure

#### 11.1 Methods

The investment officer shall prepare an investment report at least quarterly [or monthly], including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter [or month]. This management summary will be prepared in a manner, which will allow the District to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the entity's chief administrative officer, the legislative body, the investment committee and any pool participants. The report will include, at a minimum, the following:

- An asset listing showing par value, cost and accurate and complete market value of each security, type of investment, issuer, and interest rate;
- Average maturity of the portfolio and modified duration of the portfolio;
- Maturity distribution of the portfolio;
- Average portfolio credit quality; and,
- Time-weighted total rate of return for the portfolio for the prior one month, three months, twelve months, year to date, and since inception compared to the Benchmark Index returns for the same periods; Average weighted yield to maturity of portfolio on investments as compared to applicable Benchmarks
- Distribution by type of investment.

#### 11.2 Annual reports

11.2.1 The investment policy shall be reviewed at least annually within 120 days of the end of the fiscal year to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

11.2.2 A comprehensive annual report shall be presented in conjunction with the investment policy review.

This report shall include comparisons of District's return to the Benchmark Index return, shall suggest policies and improvements that might enhance the investment program, and shall include an investment plan for the coming year.

#### 11.3 Annual Audit

The Board of Commissioners may establish an annual process of independent review to assure compliance with internal controls if deemed necessary. Such audit will include tests deemed appropriate by the auditor.

### 12.0 Policy Considerations

#### 12.1 Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

#### 12.2 Amendments

This policy shall be reviewed on an annual basis. Any changes must be approved by the investment officer and the District Board of Commissioners, as well as the individuals charged with maintaining internal controls.

### 13.0 Approval of Investment Policy

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The investment policy and any modifications to that policy shall be formally approved and adopted by the District Board of Commissioners.

### 14.0 Glossary

*US Treasury Obligation:* Direct obligations of the United States Treasury whose payment is guaranteed by the United States. (State Statute Note)

*GSE – Agency Obligations:* US Government Agencies, Government Sponsored Enterprises (GSEs), Corporations or Instrumentalities of the US Government – 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 Bureau (FFCB). (State Statute)

*TLGP Debt Obligations:* Senior unsecured debt obligations guaranteed by the Federal Deposit Insurance Corporation under the Temporary Liquidity Guarantee Program (TLGP) or other federal government guaranteed programs; Eligible debt obligations must carry the full faith and credit of the United States Government.

*Commercial Paper:* Commercial Paper\* that is rated A1/P1 and has long term bonds which have a minimum rating of AA- by Standard and Poor's and Aa3 by Moody's

*Bankers' acceptances:* if the bankers' acceptances are: (i) Guaranteed by, and carried on the books of, a qualified financial institution; (ii) Eligible for discount by the Federal Reserve System; and (iii) Issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized statistical rating organizations.

*Repurchase Agreements:* An agreement with an approved broker/dealer that provides for sell and simultaneous purchase of an allowable collateral security. The difference in the sales and purchase price is the earning rate on the agreement. A master repurchase agreement must be in place with the approved broker dealer.

*Corporate Indebtedness:* Corporate Indebtedness that has a minimum long term debt rating of AA rated by Standard and Poor's and a Aa3 rating by Moody's and must be rated on the settlement date P-1 or Aa or better by Moody's Investors Service or A-1 or AA or better by Standard & Poor's Corporation or equivalent rating by any nationally recognized statistical rating organization.

*Local Government Investment Pool:* State treasurer's local short-term investment fund up to the statutory limit per Washington State statute

*Certificates of Deposit/Bank Deposit/ Savings Accounts:* Time deposit open accounts, certificates of deposit and savings accounts in insured institutions as defined in RCW 39.58, in credit unions as defined in RCW 39.58 or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state.

*Municipal Obligations:* Lawfully issued debt obligations of the agencies and instrumentalities of the State of Washington and its political subdivisions that have a long-term rating of A or an equivalent rating or better or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization.