CLARK COUNTY

INVESTMENT POLICY

Proud Past, Promising Future

Clark County Finance Committee

February 9, 2016

TABLE OF CONTENTS

I. Policy 3
II. Scope 3
III. Prudence 3
IV. Objective 4
V. Delegation of Authority 4
VI. Ethics and Conflicts of Interest 5
VII. Authorized Financial Dealers and Institutions 5
VIII. Authorized and Suitable Investments 6
IX. Collateralization, Safekeeping, and Custody 11
X. Diversification 11
XI. Maximum Maturities 13
XII. Risks 13
XIII. Internal Control 14
XIV. Performance Standards 15
XV. Bond Proceeds 15
XVI. Reporting 15
XVII. Finance Committee Membership and Purpose 16
XVIII. Investment Advisor 16
XIX. Intergovernmental Investment Pool Committee 17
XX. Clark County Investment Pool 17
XXI. Investment Policy Adoption 19

CLARK COUNTY INVESTMENT POLICY

I. Policy

It is the policy of the Clark County Treasurer (Treasurer) to invest public funds in accordance with all federal, state, and local governing statutes. The Treasurer will invest public funds in a manner that preserves capital and ensures the protection of investment principal, allows adequate liquidity for any relevant municipal corporations (Participants), and achieves the highest investment return consistent with the primary objectives of safety and liquidity.

II. Scope

The Clark County Investment Policy (Policy) applies to all financial assets held or controlled by the Treasurer other than trust fund assets held by third parties. This includes funds where the Treasurer is the Treasurer or ex-officio Treasurer for Participants that have signed Investment Services Agreements with the Treasurer to have this function performed on their behalf. Examples of funds include General Funds, Special Revenue Funds, Capital Project Funds, Enterprise Funds, Debt Service Funds, Insurance Funds, Transportation Vehicle Funds, and Agency Funds. These funds are administered by Fund Managers who are authorized to act on behalf of relevant municipal corporations, as well as Clark County. In addition, any new fund created by the Participants shall comply with this policy.

Fund Managers can either request the Treasurer to invest their jurisdictions' money in the Clark County Investment Pool (Pool), or request that the Treasurer purchase a security with a specific term and amount that is held outside the Clark County Investment Pool (Pool). Operational aspects of the Pool are contained in Section XIX. Pool securities and securities invested outside the Pool are collectively referred to as the "Portfolio").

III. Prudence

The Treasurer and authorized investment officers will perform their duties in a manner consistent with the standard of a "prudent person," as defined by RCW 43.250.040.

> "In investing and reinvesting moneys in the public funds investment account and in acquiring, retaining, managing, and disposing of investments…, there shall be exercised the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital."

Authorized investment officers acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for credit and market risks encountered in the performance of their investment duties. Due diligence requires timely reporting of material

deviation from expectations and such other actions to control adverse developments as may be possible in consideration of the particular circumstances and within other provisions of this policy.

IV. Objective

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

1. **Safety**: Safety of principal is the foremost objective of the Portfolio. This objective seeks assurance that principal losses are minimized, whether from securities default, broker/dealer default, or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

2. **Liquidity**: The portfolio shall remain sufficiently liquid to enable Clark County and its Participants to meet their needs for funds to pay their operating expenses and capital purchases that should be reasonably anticipated.

3. **Return on Investment**: The 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 and the cash flow requirements of the Participants.

V. Delegation of Authority

Authority to manage the Clark County Investment Program is derived from the Revised Code of Washington (RCWs) in RCW 36.29.020 which delegates, in part, as follows:

- The Treasurer may invest funds in qualifying investments when authorized by the governing bodies of the relevant municipal corporations or by the County Finance Committee.

- When not already authorized by statute or the governing bodies of the relevant municipal corporations, the County Finance Committee authorizes the County Treasurer to invest any remaining funds in accordance with this investment policy.

The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls and procedures to regulate the activities of all staff in investment matters. The Treasurer shall recommend policy changes, as appropriate, to the County Finance Committee and shall be charged with implementing such policy and subsequent policy changes in a timely, prudent, and effective manner. To "ensure effective cash management of public funds," (RCW 43.08.015) the Treasurer may designate investment officers who will have the authority to perform the duties of the Treasurer.

VI. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or that could impair their ability to make impartial investment decisions.

Employees and investment officials shall disclose annually to the Prosecuting Attorney any material financial interests in financial institutions that conduct business within the jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Clark County Investment Portfolio.

The County Finance Committee will file personal financial disclosure forms annually, with the Public Disclosure Commission consistent with the provisions of RCW 42.17.

No officer or employee of Clark County may receive, accept, take, seek, or solicit, directly or indirectly, anything of economic value as a gift, gratuity, or favor from a person if it could be reasonably expected that the gift, gratuity, or favor would influence the vote, action, or judgment of the officer or employee, or be considered as part of a reward for action or inaction. RCW 42.52.140

VII. Authorized Financial Dealers and Institutions

The Treasurer will maintain a list of broker/dealers and financial institutions authorized to provide investment services to the Treasurer and who are in compliance with Washington State and U.S. Securities and Exchange Commission. Authorized broker/dealers and financial institutions will be limited to those that meet one or more of the following:

- financial institutions approved by the Washington Public Deposit Protection Commission (RCW 39.58); or,
- primary dealers recognized by the Federal Reserve Bank; or,
- non-primary dealers qualified under U.S. Securities and Exchange Commission Rule 15C3-1 and who are a certified member of the Financial Industry Regulatory Authority.

Each authorized broker/dealer will submit annual reports, including audited financial statements, and other information as determined by the Treasurer.

Financial Institutions are those entities that provide CDs, BAs and Deposits and are approved by the Washington Public Protection Commission. We will periodically review their Financial Statements on-line.

The Treasurer will maintain quarterly Call Reports for those Financial Institutions where we have investments.

All broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- audited financial statements,
- proof of Financial Industry Regulatory Authority (FINRA) certification,
- a signed trading authorization form,
- proof of registration with the state of Washington, and
- a completed Broker/Dealer questionnaire and certification of having read Clark County's Investment Policy.

Qualified broker/dealers and financial institutions will be reviewed and selected by the Treasurer on a routine basis. This includes a periodic review of the financial condition and registrations of qualified bidders. Current audited financial statements are required to be on file for each financial institution and broker/dealer in which the Treasurer invests.

VIII. Authorized and Suitable Investments

Eligible investments are only those securities and deposits authorized by statute (RCW 36.29.020, 36.29.022, 39.58.050, 39.59.020, 39.59.030, and 43.84.080).

The Treasurer may invest in any investment authorized by law for the treasurer of the state of Washington or any local government in the state of Washington (RCW 39.59.020). The following investments are representative (not inclusive) of the permitted securities:

1. **U.S. Treasury obligations.**

2. **U.S. Government Agency obligations, U.S. Government instrumentality obligations, or of government sponsored corporations** that may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve, which may include, but is not limited to the following:
   - Federal Farm Credit Banks (FFCB)
   - Federal Home Loan Bank (FHLB)
   - Federal Home Loan Mortgage Corporation (FHLMC)
   - Federal National Mortgage Association (FNMA)
   - Government National Mortgage Association (GNMA)
   - Export/Import Bank
   - Maritime Administration
   - Small Business Administration

3. **Banker's Acceptances** purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs) A-1, P-1 or F-1, at the time of purchase.

4. **Commercial paper** purchased on the secondary market with the highest short-term credit rating of any two NRSROs A-1, P-1 or F-1, at the time of purchase. It must also meet the requirements of the State Investment Board (RCW 43.84.080 (7)).

5. **Non-negotiable Certificates of Deposits**

a) Normal (term) non-negotiable Certificates of Deposits can be purchased with financial institutions qualified by the Washington Public Deposit Protection Commission,
and
b) Flexible Certificates of Deposits can be purchased with financial Institutions qualified by the Washington Public Depository Protection Commission which offer periodic draws of principal and interest prior to the maturity of such Certificates.

6. The Treasurer may invest in **Repurchase Agreements** only with primary dealers who have a long-term credit rating of "A" or better by two NRSROs, if the final maturity of the repurchase agreement is less than one week. The third-party custodian must also maintain an "A" long-term credit rating. If the final maturity of the repurchase agreement is longer than one week, the primary dealer and the third-party custodian must maintain an "AA" long-term credit rating or better by two NRSROs. The Treasurer must enter into a Bond Market Association (BMA) Master Repurchase Agreement and third-party custodial contract which specifies terms and conditions of the repurchase agreement.

c) The third-party custodian will act as trustee solely on behalf, and at the direction of, the Treasurer for the safekeeping of securities.

d) The market value of collateral pledged must be maintained at 102% of the value of the repurchase agreement, plus accrued interest. Collateral for mortgage-backed (CMO) repurchase agreements will be priced at 105% of market value, plus accrued interest.

e) The only eligible collateral for repurchase agreements will be direct obligations of the U.S. Treasury and/or U.S. Government Agency obligations and/or U.S. Government instrumentality obligations.

f) The market value of the securities used as collateral for repurchase agreements shall be monitored daily by the Treasurer's staff and by a third-party custodian. If any deficiencies are discovered, they shall be corrected within one day. If the deficiencies are not corrected within one day, the procedures defined in the Repurchase Agreement contract will be followed to cancel the Repurchase Agreement.

g) The right of collateral substitution is granted provided only authorized securities are used.

7. The Treasurer may invest in **reverse repurchase agreements** with primary dealers purchased under the terms of a signed Bond Market Association (BMA) Master Repurchase Agreement. The primary dealers and the third-party custodian must meet the same credit rating criteria as described under "Repurchase Agreements." The following guidelines apply to all reverse repurchase agreements:

a) If reverse repurchase agreements are used as an income generation strategy, the term of the reinvestment of these funds will match the term of the underlying reverse repurchase agreement.

b) If reverse repurchase agreements are used as an emergency borrowing measure, the transaction can only occur after it has been approved by the Treasurer.

c) Reinvestment of the proceeds from a reverse repurchase agreement shall be no longer than 14 days more or less than the term of the agreement. The reinvestment of proceeds must closely match the term of the reverse repurchase agreement.

8. **Washington State Local Government Investment Pool** (LGIP) the Treasurer may obtain a copy of the LGIP Investment Policy, Operations Manual, and its most recent audited annual financial statement, and will obtain monthly and quarterly reports of the LGIPs investment activity and return.

9. **Municipal Investment Accounts** (MIA) can be invested in with financial institutions qualified by the Washington Public Deposit Protection Commission.

10. **Variable Rate and Structured Notes**. The use of variable rate notes (VRNs) is considered prudent in the management of the portfolio provided the following criteria are met:

a) The rate on the VRN resets with a frequency that produces a close tracking with money market rates.

b) The VRN is indexed to a money market rate such as Federal Funds, the three-month Treasury Bill, or LIBOR, that correlates very highly (95% or greater) with overall changes in money market rates even under wide swings in interest rates.

c) Any cap on the interest rate is at least 15% (1500 basis points) higher than the coupon at the time of purchase.

d) The Treasurer will not use "exotic" derivatives such as range notes, dual index notes, inverse floating rate notes, and deleveraged notes (notes linked to a multiple of an index where the multiple is less than one), or notes linked to lagging indices, or to long-term indices.

e) For the purposes of calculation of average daily maturity, the next reset date of VRNs will be the maturity date.

11. **Deposit Notes**. The Treasurer may invest in Deposit Notes if the Deposit Note is a debt instrument (promissory note) of a bank or bank holding company. The Deposit Note must be purchased on the secondary market, it must have a long-term credit rating of

"Aa" or equivalent and a short-term credit rating of "A1/P1" by at least two of the major credit rating agencies, or be insured or guaranteed by an agency of the federal government or by private issuer authorized to do business in the state of Washington, and provided that the Deposit Notes that are insured or guaranteed by a private insurer also are backed by a pool of mortgages equal to the amount of the Deposit Notes (RCW 39.60.050).

The Treasurer may not invest in "Certificates of Deposit Notes" (negotiable certificates of deposit) issued by banks located outside of the state of Washington.

12. **Registered Investment Companies (Mutual Funds)**. Mutual Funds and Money Market Funds are an acceptable investment type subject to the arbitrage provisions of Section 148 of the federal Internal Revenue Code. If bond covenants permit investment in mutual funds, the Treasurer may invest in shares in money market mutual funds that invest exclusively in the securities specifically permitted under this investment policy and that are similarly diversified provided that the fund is rated "AAm" or "AAm-G" or better by Standard & Poor's Corporation or equivalently by other rating agencies. The fund must also be properly registered for sale in the state of Washington.

13. **Registered Warrants**. The Treasurer may invest in registered warrants issued by the County or the junior taxing districts within Clark County; however, these registered warrants may only be purchased with County funds separate from the Clark County Investment Pool (RCW 39.59.020).

14. **Bonds**. The Treasurer may invest in bonds of the state of Washington and any local government in the state of Washington which have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency or other notes or bonds issued by other states as defined in RCW 36.59.020.

15. **Securities Lending.** The Treasurer may select one or more firms to provide securities lending management services. Securities lending services will include, but are not limited to, the following:

a) The Treasurer may lend securities only to primary dealers who have a long-term credit rating of "A" or better by two NRSROs. The third-party custodian must also maintain an "A" long-term credit rating.

b) The Treasurer must enter into a written agreement with the lending agent, and must enter into the industry standard agreement with any borrower. The Treasurer must receive indemnification from the lending agent for borrower default and any losses resulting from the agent's negligence or failure to comply with written instructions from the County.

c) All loans of securities must be supported by collateral valued at not less than 102% of market value of the securities, including accrued interest.

d) Procedures will detail the restrictions permitted on "mismatch" of the loan and

the reinvestment of cash collateral.

e) Provide next-day liquidity for all securities on loan as required.

f) Provide monthly accounting, performance, compliance, management reports, and other reports as required by the treasurer.

g) Reinvestment of proceeds of securities lending for cash collateral must be done as an investment according to the restrictions of this policy but only count against the limit on reverse repurchase agreements at fiscal year-end.

h) Collateral accepted by a securities lending agent must conform to the collateral requirements of this policy and must be equal to no less than 102%.

i) Collateral must be held by an independent third-party custodian with whom the Treasurer has entered into a custodial agreement.

j) All securities transactions are to be conducted on a delivery-versus-payment (DVP) basis only, and trades must have a confirmation/safekeeping receipt provided to the Treasurer.

16. **Forward Delivery Agreement.** A forward delivery agreement (FDA) is an investment agreement between the provider (broker), trustee (holder of the securities, safekeeping custody), and the Investor (the Treasurer) for the Participant on whose behalf the Treasurer provides services related to the FDA. Under an FDA, the provider agrees to provide certain "eligible securities" to the escrow agent for the account of the Investor at a guaranteed rate of return, and the escrow agent agrees to purchase those securities from the Investor. Because they provide a guaranteed rate of return or yield, FDAs are often used for bond proceeds and/or debt service reserve funds that are subject to yield restrictions or arbitrage rebate but may be used for any fund when the goal is to achieve a guaranteed yield. The Participant must agree to a specified "cash flow" schedule for depositing and withdrawing money from the invested fund and may be subject to a penalty for early withdrawal. The FDA is secured by the "eligible securities" which will be owned by the Treasurer as the participant's Treasurer.

a) Procedure - The Participant will work closely with the County in the creation of the FDA.

The following describes the process that will be followed:

(1) define the eligible securities (which must be authorized investments under the Clark County Investment Policy),
(2) solicit a broker (who must meet the requirements of the Clark County Investment Policy),
(3) enter into an escrow agreement,
(4) Participant must specify a "cash flow" schedule,
(5) specify the securities' purchase dates and amounts,

(6) understand the yield quote,
(7) describe the terms and conditions under which the FDA may be terminated prior to its originally scheduled maturity date,
(8) describe each party's rights and obligations in the event of a default by any party,
(9) other recommendations pursuant to legal counsel and investment/financial advisor input.

Any legal, broker, and/or trustee fees associated with executing the FDA will be the responsibility of the Participant and not the Treasurer.

In the event the Participant needs cash earlier than an investment will be maturing within the FDA dates, the Participant will notify the Treasurer immediately as to exactly how much money is needed and the date. If the Participant does not have sufficient liquidity, an analysis will be performed by the Treasurer in communication with broker to sell an investment early. Any penalty and/or fees associated with this will be the responsibility of the Participant.

When the investments mature with the FDA and are not completely used immediately for expenses, the money will be invested in the Pool.

b) Fees - The Participant will be responsible for actual fees incurred by the Treasurer in the development and execution of the FDA. These expenses will be charged as incurred.

17. All other investments authorized by law.

IX. Collateralization, Safekeeping, and Custody

All investment securities purchased by the Treasurer or held as collateral on either deposits or investments shall be held in third-party safekeeping at a financial institution (to be designated as the "Custodian") qualified to act in this capacity. All securities held for the Treasurer account will be held free and clear of any lien and all transactions will be conducted on a delivery-versus-payment (DVP) basis. The Custodian shall issue a safekeeping receipt to the Treasurer listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the custodian will also provide reports that list all securities held for the Treasurer, the book value of holdings, and the market value at month end. Appropriate employees in the Treasurer's Office and the representatives of the Custodian responsible for, or in any manner involved with, the safekeeping and custody process of the Portfolio shall be bonded to such a degree as to protect the Treasurer and Clark County against losses from malfeasance and misfeasance.

X. Diversification

The Pool's portfolio shall be structured to diversify investments to reduce risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific type of security. The maximum percentage of the portfolio permitted in each eligible security is as

follows:

Type of Security	Credit Standards	Maximum Percentage Permitted
U.S. Treasuries	NA	100%
Federal Agencies (Fixed Rate)	NA	100%
Federal Agencies (VRNs)	NA	10%
Banker's Acceptances	A1/P1	25%
Commercial Paper	A1/P1 and "AA" or equivalent	25%
Municipal Investment Accounts		65%
Non-negotiable Certificates of Deposit		40%
Repurchase Agreements	"A" if maturity < one week, "AA" if maturity > one week	100% overnight or 30% if maturity > than 30 days
Reverse Repurchase Agreements	Same as Repo	10%
Mutual Funds Qualified Register With Washington State	Registered with the State of Washington	15%
Securities Lending	"A" or equivalent	25%
Bank Deposit Notes	"AA" or equivalent	25%
WA State Municipal Bonds	"A" or equivalent	20%
Washington State Local Government Investment Pool (LGIP)	NA	100%

The Pool's portfolio will be further diversified to limit the exposure to any one issuer. No more than 5% of the Pool's portfolio will be invested in the securities of any single issuer with the following exceptions:

Type of Security	Maximum Percentage Permitted
U.S. Government Obligations	100%
U.S. Agency Obligations	35% per issuer
Repurchase Agreement Counterparties	20% per provider overnight/ 10% per provider if > 1 day
Non-negotiable Certificates of Deposit	10%
Financial Institutions that offer both non-negotiable Certificates of Deposit and Municipal Investment Accounts	30%

Qualified Mutual Funds Register With Washington State	15%

XI. Maximum Maturities

Maintenance of adequate liquidity to meet the cash flow needs of Clark County and Participants is essential. Accordingly, securities in the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated cash flow needs of Participants, based on historical information and any projected cash flow needs provided by Participants Any cash in excess of that necessary to meet the anticipated needs may be invested with the following maturity limitations:

Type of Security	Maximum Maturity
Any single security (unless matched to a specific cash flow requirement)	5 years
Repurchase and Reverse Agreements	90 days
Commercial Paper	180 days
Banker's Acceptances	185 days
Forward Delivery Agreement	3 Years

The Pool is an external investment pool. The maximum weighted average maturity of the Pool cannot exceed one and one-half (1 ½) years.

XII. Risks

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, Clark 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 per share 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.) per share.

The Pool's market value and the direct investments may fluctuate due to one of the following 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.

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 Clark County Treasurer were to determine that the extent of the deviation (set at 0.99 to 1.01 by policy) 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 County Treasurer may cause that Pool to take such action as it deems appropriate to eliminate or reduce dilutions that cause unfair results to participants.

XIII. Internal Control

The Treasurer shall establish and monitor a set of written internal controls designed to protect Clark County and Participant's cash and cash equivalent assets and to ensure proper accounting and reporting of the investment transactions. Such internal control policy statements shall include, but not be limited to:

- The use of third-party custody and safekeeping;

- The execution of all securities transactions on a delivery versus payment basis;
- The clear delegation of investment authority;
- The separation of transaction authority from record keeping;
- The use of objective criteria in selecting financial institutions and dealers authorized to provide investment services to the county;
- The use of objective criteria in awarding investment purchases and sales to authorized financial institutions and dealers.

The Treasurer's Office is subject to an annual independent review by the Washington State Auditor of its internal controls and compliance with all state and federal statutes and relevant policies and procedures. However, the Washington State Auditor is not required to annually audit the Treasurer's Office.

XIV. Performance Standards

The Pool's objective is to obtain a market average rate of return throughout budgetary and economic cycles that corresponds with investment risk constraints and Participants' cash flow needs.

For purposes of evaluating the Pool's investment performance, the Treasurer uses the following indices:

- the Washington State LGIP;

- a customized Total Return Index (made up of 75% 0-1 Year Treasury and 25% 1-3 Year Agency).

XV. Bond Proceeds

Clark County shall comply with all applicable sections of the Internal Revenue Code of 1986; Arbitrage Rebate Regulations and bond covenants concerning investment of bond proceeds.

XVI. Reporting

The Treasurer prepares reports on investment activity on a monthly, periodic and annual basis. Reports may also be prepared at such times as deemed appropriate by the Treasurer. A report showing the original cost (or book) value and fair value of each Participant fund's investment in the Pool will be provided as of each month end. Reports will be distributed to the various oversight committees and to the Clark County Investment Pool participants as deemed appropriate by the Treasurer and will be readily available upon request. Examples of reports are:

- investment purchases and sales;
- investment income received;
- realized and unrealized gains and losses;
- weighted average maturity of the portfolio;

- percentage of portfolio by issuer, by type of security, and by maturity sector;
- Net Asset Value (N.A.V.) per share of Pool Shares and the number of shares outstanding;
- Pool balances, stated at cost and market value;
- Pool yields;
- Pool performance on a total return basis after subtracting any relevant fees, including the Treasurer's Investment Fee, compared to established benchmarks shall be reported monthly;
- investment strategies shall be reported quarterly ; and
- a report on current economic conditions.

Examples of these reports and summaries of the information in the reports shall be provided to the Clark County Finance Committee (Finance Committee) quarterly.

Fair Market Value/Net Asset Value per share:

At the end of each month, and at any other times deemed appropriate by the Treasurer, the Treasurer's Office shall determine the Fair Market Value (F.M.V.) of the securities making up the Pool along with the Net Asset Value (N.A.V.) per share. F.M.V and the N.A.V per share will be reported to the County and Participants each month. The N.A.V. per share is determined by dividing the value of the Pool's net assets (fair market value of the Pool's assets less fair market value of the pool's liabilities) by the total number of Pool shares outstanding.

XVII. Finance Committee Membership and Purpose

By statute, the Finance Committee consists of the County Treasurer as Chair, the County Auditor as Secretary, and the Chair of the Board of County Councilors. The committee shall approve the Policy and shall make all appropriate rules and regulations to carry out the provisions of RCW 36.48.010 through 36.48.060. The Finance Committee shall meet at least quarterly (calendar quarter) and these meetings are subject to the Open Public Meetings Act. The purpose of the Finance Committee meetings is to review compliance with the Policy, consider any proposed changes to the Policy, review the extent to which the Portfolio is meeting its investment objectives and any other matters that may appropriately come before it. Members of the Finance Committee shall adhere to RCW 42.17.245 by disclosing annually to the Public Disclosure Committee any financial interest in institutions in which public funds were invested.

XVIII. Investment Advisor

The Treasurer may use an Investment Advisor, depending on budgetary constraints, on at least an annual basis. The role of the Investment Advisor is to provide technical advice to the Treasurer and staff in managing the Portfolio. Items the Treasurer may request the Investment Advisor to review include:

- evaluating the current Portfolio and investment strategy and describing any changes which should be made;
- determining if internal controls, market analysis, Portfolio analysis, and reporting

practices are adequate; and
- evaluating the Investment Policy and Procedures Manual.

XIX. Intergovernmental Investment Pool Committee

The Intergovernmental Investment Pool Committee's (IIPC) purpose is to assist in reviewing the investment strategy and the need for cash flow information from Participants. The IIPC is composed of all Participants. The IIPC generally meets once a quarter prior to the County Finance Committee meeting. Participants will be notified at least one week prior to the scheduled meeting of the date, time and location of the IIPC meeting.

XX. Clark County Investment Pool

The Treasurer invests funds collectively in order to better meet investment objectives of the County and Participants. RCWs 36.29.020, 36.29.022, and 36.29.024 provide statutory authority for the Treasurer to operate an Investment Pool. The purpose of the Pool is to allow the County and Participants to combine funds available for investments in order to better meet their investment objectives.

All Participants must sign an Investment Services Agreement with the Treasurer to participate in the Pool.

The Pool shall operate under the following guidelines:

Purchase of Pool Shares (also known as Deposits):

Participants may invest monies in the Pool by purchasing shares by giving notice of such amounts to be invested to the Treasurer. There is no minimum or maximum amount of shares that must be purchased or dollar amount deposited. The purchase price per share shall be one dollar ($1.00).

Management of the Pool's Net Asset Value:

It is recognized by all Participants that there can be no assurance that the Treasurer will be able to maintain a constant N.A.V. per share of one dollar ($1.00) due to changes in the value of the Pool's investments resulting from changes in interest rates and the duration of the securities within the Pool. The Pool will be managed in a manner to maintain the N.A.V. per share within a band of $1.01 to $0.99. The calculation of N.A.V. per share will be done twice each month.

If the Pool's N.A.V. per share exceeds the $1.01 or $0.99 band in either direction, the County will sell securities to bring the N.A.V. per share back within the specified band. The County Treasurer will promptly disclose these sales to the Finance Committee and to Pool Participants. The realized gain or loss on the securities sold will be distributed to all Pool Participants as provided below.

Earnings:
Interest is distributed based on the average weighted daily balance a Participant's fund maintains in the Pool and is calculated using the actual number of days in the month based on a 360-day year. The total accrued interest earned on the Pool securities and realized gains and losses on securities sold before their maturity date will be distributed monthly to Pool participants based upon Participants' weighted daily average (pro-rata) ownership of Pool shares. Interest will be paid based upon the last calendar day of each month and will be automatically reinvested as principal.

Should the dollar amount of realized losses exceed the amount of realized gains and interest earned in a given month, the net negative earnings will be distributed to Participants resulting in a pro-rata reduction in the fund balances for Participants.

Redemptions of Shares – to pay normal expenditures:

Participants who redeem Pool shares for normal expenditure purposes will receive one dollar ($1.00) per share.

Redemption of Shares – to reinvest outside the Pool:

Participants withdrawing one or more funds completely from the Pool to reinvest outside of the Pool shall receive one dollar ($1.00) per share, less costs associated with the transaction. Costs associated with this transaction include but are not limited to wire transfer fees, safekeeping fees, etc.

Participants withdrawing one or more funds completely from the Pool, wherein the value of the shares being redeemed equals or exceeds three percent (3.00%) of the value of the total Pool, must provide ten (10) business days notice prior to withdrawal.

Investment Fee – Clark County Investment Pool:

The Treasurer charges Participants an investment fee based on RCW 36.29.024. The investment fee is determined by the actual costs of managing the Pool and is set by the Treasurer. The investment fee will be calculated annually and may fluctuate due to the actual average principal balances being maintained in the Pool differing from the projected balances. This fee is expressed as a rate (e.g.. 6.3 basis points) based on the projected daily principal balance of the Pool for the next twelve months. If at the end of each twelve month period the Treasurer determines that the amount of the Investment Fee collected was less than actual costs, or was greater than actual costs incurred during the prior twelve months, then the rate for the next twelve months will be increased or reduced to reflect that. The calculation of the Investment Fee, with identification of actual costs, aggregated by major expense category, as adjusted and projected Pool balance, will be provided to Participants and the Finance Committee promptly after the calculation is completed.

Investment Fee – Investments Outside the Clark County Investment Pool:

The Treasurer charges Participants an investment fee based on RCW 36.29.020. The investment

fee charged for investments placed outside the Clark County Investment Pool shall equate to five percent (5.00%) of the earnings of a security with an annual maximum of fifty dollars on each investment transaction.

XXI. Investment Policy Adoption

This Investment Policy shall be adopted by vote of the County Finance Committee, and any modifications to it shall be similarly approved.

Approved by the Clark County Finance Committee this 9th day of FEBRUARY, 2016.

Marc Boldt
Chair, Board of the County Councilors

Doug Lasher
Clark County Treasurer

Greg Kimsey
Clark County Auditor

XXII. Glossary

Active Management Investment Strategy: The use of investment strategies designed to increase portfolio values by exceeding market average rates of return. This can be achieved by using active portfolio management techniques such as swaps and spreads. Active management is characterized by the trading of securities prior to maturity.

Agencies: Some credit agencies (such as the Government National Mortgage Association) re owned and directed by the federal government and their debt obligations are backed by the full faith and credit of the U.S. government. Other federal agencies, referred to as government sponsored enterprises, are not guaranteed by the full faith and credit of the U.S. Government. These agencies presumably have de facto backing by the federal government and include the Federal Farm Credit Banks, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

Amortized Cost: The original cost of an investment with amortization of premium or accretion of discount over the life of the security. In addition, interest received from semi-annual coupon interest payments would be accrued ratable over six month periods. This amortization smoothes coupon interest payments and recognizes, ratably until the investment matures, the difference between the purchase price and, at maturity, the par value of the security.

Asked: The price at which securities are offered for sale.

Banker's Acceptances (BA): A Bankers Acceptance (BA) is a credit instrument used to finance certain types of domestic and international commercial transactions. The bank on which the BA is drawn accepts the liability and responsibility of making payment upon maturity. This liability makes the acceptance very marketable and safe.

Bid: The price a seller is requesting. (When you are selling securities, you ask for a bid). See Offer.

Bond Market Association (BMA) Master Repurchase Agreement: A standard written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Book Value: The term book value denotes the original cost of an investment.

Book Value Return: Measures the yield at which securities in the portfolio were originally purchased adjusted for realized gains or losses.

Broker: A broker brings buyers and sellers together for a commission.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Treasurers are only allowed to purchase non-negotiable CDs from financial institutions qualified by the Washington Public Deposit Protection Commission.

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

Comprehensive Annual Financial Report (CAFR): The official annual report for Clark 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.

Coupon: (a) the annual rate of interest that an issuer of a bond 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 potential for loss due to a reduction of the issuer's financial strength. This is also known as Default Risk.

Credit Rating Definitions:

Long-term			
	Moody's	Standard & Poor's	Fitch
Highest Quality	Aaa	AAA	AAA
High Quality	Aa	AA	AA
Upper-medium-grade	A	A	A
Medium-grade	Baa	BBB	BBB
Speculative elements	Ba	BB	BB
Lack investment characteristics	B	B	B
Issues in default	Caa	CCC	CCC
Speculative in a high degree	Ca	CC	CC
Lowest rated class of bonds	C	C	C
Debt in default		D	D

Short-term (less than 365 days)			
	Moody's	Standard & Poor's	Fitch
Superior ability for repayment	P-1	A-1	F-1

Strong ability for repayment	P-2	A-2	F-2
Acceptable ability for repayment	P-3	A-3	F-3
Adequate capacity for payment		B	F-S
Doubtful capacity for payment		C	D
Issue in default		D	

Moody ratings from Aa to C may be modified by 1, 2, or 3 to show relative standing within the major rating categories. For example: Aa3.

S&P and Fitch ratings from AA to B may be modified by the (+) or (-) to show relative standing within the major rating categories. For example: AA+.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

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

Delivery Versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Derivative Security: A financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

Discount: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Discount Securities: Non-interest bearing money market instruments that are issued at a discount from par and redeemed at maturity for full face value, i.e. U.S. Treasury Bills.

Distribution: Allocation of Pool earnings to Participants' accounts.

Diversification: Dividing investment funds among a variety of securities offering independent returns. Interest income (coupon interest) plus realized gains and losses.

External Investment Pool: An arrangement that commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. An investment pool that is sponsored by an individual state or local government is an external investment pool if it includes participation by a legally separate entity that is not part of the same reporting entity as the sponsoring government.

Fair Value: The price at which a financial instrument could be exchanged between willing parties, other than in a forced or liquidation sale.

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, i.e. S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

Federal Funds Rate: The interest rate at which Fed funds are traded. This rate is currently pegged by the Federal Reserve and managed through open-market operations.
Federal Home Loan Banks (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks via-a-via member commercial banks.

Federal National Mortgage Association (FNMA): FNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Home Loan Mortgage Corporation (FHLMC): The FHLMC is a stockholder-owned corporation established by Congress in 1970 to provide a continuous flow of funds to mortgage lenders.

Federal Open Market Committee (FOMC): Consists of seven members of the Federal Reserve Board and 5 of the 12 Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

Flexible non-negotiable CD: A time deposit with a specific maturity evidenced by a certificate. Treasurers are only allowed to purchase non-negotiable CDs from financial institutions qualified by the Washington Public Deposit Protection Commission. Step-up option will renew with each successive term if the certificate is automatic renewable. You may exercise the step-up option one time during the term, after the first six days. Additional deposits can be made (these additions may not exceed the original issue value) in $500.00 or larger increments after the first six days. Withdrawals may be made in any portion or total of amount of certificate at any time after the first six days. Withdrawals are limited to X times per month.

Interest Rate Risk: The risk associated with fluctuations in market interest rates that cause a fixed-income security to increase or decrease in value.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.
Liquidity Risk: The risk that although an issuer may eventually make good on an obligation, cash may not be available for a period longer than an investor originally intended.

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 Risk: The risk that affects the price of a security as a result of changes in market conditions.

Market Value: The price at which a security is trading and could presumably be purchased or sold by willing parties.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Maturity: The date upon which the principal (and accrued interest) or stated value of an investment becomes due and payable.

Money Market: The market in which short-term debt instruments (bills, commercial paper, banker's acceptances, etc.) are issued and traded.

Net Asset Value (N.A.V.) per share: For purposes of the Clark County Pool, the N.A.V. per share is determined by valuing the portfolio at market value. The market value of the Portfolio's securities less associated liabilities (assets less liabilities) is then divided by the total number of shares outstanding. This method results in a fluctuating N.A.V that may be equal to, greater than or less than $1.00.

Offer: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

Open Market Operations: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

Passive Investment Strategy: If the governing body does not wish to allocate resources or

encourage the staff to seek optimizing adjustments, a buy-and-hold investment strategy would be utilized. This method may not optimize total return and could involve a sacrifice of yield.
Portfolio: Collection of securities held by an investor.

Primary Dealer: A pre-approved bank, broker/dealer or other financial institution that is able to make business deals with the U.S. Federal Reserve, such as underwriting new government debt. These dealers must meet certain liquidity and quality requirements as well as provide a valuable flow of information to the Fed about the state of the worldwide markets.

Prudent Investor Rule: An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state--the so-called legal list. In other states the trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

Public Deposit Protection Commission (PDPC): The PDPC consists of the State Treasurer, as Chairman, the Governor, and the Lieutenant Governor. The Commission is empowered to request a qualified public depositary to furnish information on its public deposits and the exact status of its net worth. The Commission is further empowered to take any action deemed advisable for the protection of public funds and to establish procedures for collection or settlement of claims arising from loss.

Qualified Public Depositories: A financial institution that does not claim exemption from 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 funds.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price.

Repurchase Agreement (RP or Repo): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is used to increase bank reserves.

Relevant municipal corporations: Political subdivisions, junior taxing districts that are required to, or are eligible to, use the County Treasurer's investment and debt management services.

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.

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

Securities & Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

State and Local Government Series Securities: These securities are offered by the U.S. Treasury through its Bureau of Public Debt to state and local government entities as an investment alternative to assist these issuers of tax-exempt securities in complying with yield restriction and arbitrage rebate provisions of the Internal Revenue Code.

Total Return: Measures the change in value of the overall portfolio over a given period (including market effects on price, income earned and adjustments for deposits/withdrawals). Total return enables portfolio managers to evaluate fluctuations in the value of principal rather than simply the income produced.

Treasury Bills: A discount security issued by the U.S. Treasury to finance national debt. Most bills are issued to mature in 4 weeks, three months, six months, or one year.

Treasury Bonds: An interest-bearing coupon security issued by the U.S. Treasury with initial maturities of more than ten years to finance the national debt.

Treasury Notes: An interest-bearing coupon security issued by the U.S. Treasury with initial maturities between one and ten years, to finance the national debt.

Weighted average: A proportional average in which each item's value compared to the total of all items is to be averaged is assigned a weight. These weightings determine the relative importance of each quantity on the average. Weightings are the equivalent of having many like items with the same value involved in the average. For example if an investor purchases one hundred (100) shares at a cost of one dollar and fifty cents ($1.50) per share and twenty five (25) shares at a cost of two dollars per share, the weighted average cost of these one hundred twenty five (125) shares is one dollar and sixty cents ($1.60).

Yield: The earnings returned annually divided by the purchase price on an investment, expressed as an annual percentage.