



**COWLITZ COUNTY INVESTMENT POOL  
("CCIP")**

**INVESTMENT POLICY**

FOR FUNDS IN THE CUSTODY OF THE TREASURER

Adopted February 1, 2023

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## **1. INTRODUCTION**

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The Treasurer's office provides cash custody, banking and financial services, investment, revenue collection, and debt payment services for regional government districts including school districts, transit, port districts, Cowlitz County, fire districts, cemeteries, water districts, and other special districts. The Treasurer's Office collects taxes, and processes debt payments for principal, interest, and debt refunding and manages investment for the County and Taxing Districts.

The average annual balance of funds invested by the Cowlitz County Treasurer ranges between \$300MM and \$400MM in fund balances. The balance is dependent upon participants' bond issues and tax receipts cycles.

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

## **2. GOVERNING AUTHORITY**

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The Cowlitz County Treasurer is authorized by RCW 36.29.020 to determine the investable balances in each fund of the County and its junior taxing districts. In accordance with Revised Code of Washington 36.29.020, the Treasurer will invest any and all funds which meet the following conditions:

1. The funds belong to a municipal corporation, and
2. Are in the custody of the County Treasurer, and
3. Are not required for immediate expenditure, and
4. The governing body of the municipal corporation has not provided direction as to the investment of said funds.

The interest or other earnings thereon shall be deposited in the current expense fund of Cowlitz County and may be used for general county purposes.

## **3. POLICY STATEMENT**

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It is the Policy of the Cowlitz County Treasurer and the Cowlitz County Finance Committee to deposit and invest all funds received in a manner which will provide maximum security with the highest investment return while meeting the cash flow requirements of the county and the taxing districts within the county's jurisdiction. Cowlitz County's Investment Policy will conform to all state and local statutes governing the investment of public funds including those enumerated in Chapter 36.29, Chapter 39.58, Chapter 39.59, and Chapter 39.60 of the Revised Code of the State of Washington.

## 4. SCOPE

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This investment policy applies to all funds controlled by the Cowlitz County Treasurer and shall apply to all investment transactions made for the County and/or special purpose taxing districts. These funds are accounted for in the **Cowlitz County Annual Financial Report** and include:

- General Fund
- Debt Service Funds
- Capital Project Funds
- Internal Service Funds
- Enterprise Funds
- Trust and Agency Funds
- Special Revenue Funds
- Proprietary Funds
- Special Purpose Taxing Districts
- Any new fund, unless specifically exempted

There are instances when a client or taxing district requests that the Treasurer's Office make an investment with a specific term for one of their funds. Arbitrage and bond refunding considerations are examples behind such requests for investments with particular term characteristics. The yield objective and performance standards discussed below in this investment policy clearly cannot be applied to such instructions, which are solely the responsibility of the entity making them.

## 5. OBJECTIVES

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The primary objectives, in priority order, of the Cowlitz County Treasurer investment activities shall be:

1. **Safety:** Safety of principal is the foremost objective of the investment policy. Investments of the Cowlitz County Treasurer shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio whether from securities, defaults, or erosion of market value.
2. **Liquidity:** The Cowlitz County Treasurer's investment portfolio shall remain sufficiently liquid to enable Cowlitz County and its taxing districts to meet all cash requirements that might reasonably be anticipated.
3. **Return:** The Cowlitz County Treasurer's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the County's investment risk constraints and cash flow needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Core Direct Investments are limited to relatively low risk securities in anticipation of earning a fair rate of return relative to the risk being assumed.
4. **Legality:** Funds of the County will be invested in accordance with the Revised Code of Washington (RCW), the Budgeting Accounting and Reporting System (BARS) manual, this policy and written administrative procedures.

## 6. DELEGATION OF AUTHORITY

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1. **Treasurer:** According to Chapter 36.29 of the Revised Code of Washington, the County Treasurer or his/her designee is authorized to execute investment transactions dealing with funds under the control of Cowlitz County Treasurer. Authority to manage the investment portfolio is derived from the Cowlitz County Investment Policy, as adopted by the Cowlitz County Finance Committee, ordinances, resolutions and statutes adopted by the county, the state, the federal government, and taxing districts within Cowlitz County. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by The Treasurer.

The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officers.

2. **Investment Advisor:** The Treasurer may engage an independent registered Investment Advisor to provide oversight and consulting services as needed or provide full-time non-discretionary services to assist with the management of the County's investment portfolio in a manner that is consistent with the County's objectives and this policy. The capacity of the investment advisor will be managed by a contract scope of services.
3. **Finance Committee:** A Finance Committee consisting of the Treasurer as Chairman, the Auditor as Secretary, and the Chairman of the Board of County Commissioners, shall meet at least quarterly to review the investment performance and the investment plan. Revised Code of Washington 36.48.070

## 7. PRUDENCE

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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 income to be derived. The Treasurer will avoid incurring unreasonable and avoidable risks, either with regards to individual financial institutions or types of investments.

The standard of prudence to be used by investment officers shall be the "**prudent person**" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with the written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility 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.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officers shall avoid any transactions that might impair public confidence in Cowlitz County Government.

## **8. ETHICS AND CONFLICTS OF INTEREST**

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Investment Officials will recognize that the investment portfolio is subject to public review and evaluation. The overall program will be designed and managed with a degree of professionalism that is worthy of the public trust.

Officers and designated employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment officers and designated employees shall disclose to the Cowlitz County Treasurer and/or the Public Disclosure Commission any material financial interest in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial or investment positions that could be related to the performance of the Cowlitz County Treasurer's investment portfolio, particularly with regard to the timing of purchases and sales.

Persons authorized to invest shall not accept gifts from the institutions with which the County places investments. Occasional business meals are acceptable and must be reported to the Treasurer and Finance Committee.

## **9. TRANSACTION COUNTERPARTIES**

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The County Treasurer will at least yearly update a list of financial institutions along with approved security brokers or dealers through which investments may be made. Deposit and investment of County funds shall be made only in those institutions and in those securities in which the Cowlitz County Treasurer is statutorily authorized and approved to invest including Chapter 39.59 of the Revised Code of Washington.

Financial Institutions must be authorized as public depositories by the Public Deposit Protection Commission, Chapter 39.58 of the Revised Code of Washington.

### **1. Broker/Dealers**

All broker/dealers and financial institutions who desire to do business with the County must supply the County Treasurer with the following:

- a. Annual audited financial statements,
- b. Proof of Financial Industry Regulatory Authority (FINRA) registration,
- c. Proof of registration with the State of Washington,
- d. Certification of having read and understood the County's investment Policy.

The County Treasurer will conduct a periodic review of the financial condition of the financial institutions and broker/dealers authorized to do business with the County. If utilizing an Advisor, this will be the responsibility of the Advisor.

### **2. Investment Advisors**

The County may contract with an external non-discretionary Investment Advisor (Advisor) to assist with the management of the County's investment portfolio in a manner that is consistent with the County's objectives and this policy. Such Advisors shall provide recommendations and advice on the County investment program structure and constraints, investment strategy, and shall conduct investment transactions of specific securities. Advisors must be registered under the Investment Advisers Act of 1940 and must act in a non-discretionary capacity, requiring

approval from the County prior to all transactions. The Advisor may be authorized through the contracted agreement to open accounts on behalf of the County with the broker/dealers on the approved broker/dealer list.

The Treasurer or designee may utilize the investment advisor's approved broker/dealer list in lieu of the County's own approved list. The Advisor must submit the approved list to the County annually and provide updates throughout the year as they occur. The Advisor must maintain documentation of appropriate license and professional credentials of broker/dealers on the list. The annual investment advisor broker/dealer review procedures include but are not limited to:

- a. FINRA Certification check:
  - i. Firm profile
  - ii. Firm history
  - iii. Firm operations
  - iv. Disclosures of arbitration awards, disciplinary and regulatory events
  - v. State registration verification
- b. Financial review of acceptable FINRA capital or letter of credit for clearing settlements.

### **3. Financial Institutions**

The County will only place funds in qualified depositories in the State of Washington as provided in Chapter 39.58 RCW and as regulated by the Washington State Finance Director's Public Deposit Protection Commission (PDPC). Listings with the PDPC will be verified by the Advisor or designated investment officer annually.

### **4. Competitive Transactions**

- a. The Treasurer/Investment Officer shall obtain and document competitive bid information on all investments purchased or sold in the secondary market. Competitive bids or offers should be obtained, when possible, from at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.
- b. In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities.
- c. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price. However, the Investment Officer is encouraged to document quotations on comparable securities.
- d. If an investment advisor provides investment management services, the advisor must retain documentation of competitive pricing execution on each transaction and provide upon request.

## 10. AUTHORIZED INVESTMENTS

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The types of securities the Treasurer's Office is authorized to invest in are limited by statute 36.29.020 Revised Code of Washington. Rules regarding specific types of investments are set out in RCW 39.60.

This policy recognizes S&P, Moody's, and Fitch as the major Nationally Recognized Statistical Ratings Organizations (NRSRO). Minimum credit ratings and percentage limitations apply to the time of purchase.

Securities rated in the broad single-A category with a negative outlook may not be purchased. Portfolio holdings of corporate notes downgraded to below single-A and portfolio holdings of securities rated single-A with their outlooks changed to negative may continue to be held. No additional purchases are permitted.

All securities must be purchased on the secondary market and may not be purchased directly from the issuer.

Listed below are the authorized investments:

- **US Treasury Obligations:** Direct obligations of the United States Treasury.
- **US Agency Obligations:** US Government Agency Obligations and US Government Sponsored Enterprises (GSEs) which may include but are not limited to Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), Federal Farm Credit Banks Funding Corporation (FFCB), and Tennessee Valley Authority (TVA).
- **Supranational Bonds:** United States dollar denominated bonds, notes or other obligations that are issued or guaranteed by supranational institutions, provided, that at the time of investment, the institution has the United States as its largest shareholder. These include: International Bank for Reconstruction and Development (IBRD or World Bank); the International Finance Corporation (IFC); the Asian Development Bank (ADB) and the Inter-American Development Bank (IADB).
- **Municipal Debt Obligations:** Bonds of the State of Washington, any local government in the State of Washington, General Obligation bonds outside the State of Washington; at the time of investment the bonds must have a AA- from S&P, Aa3 from Moody's or AA- by Fitch.
- **Corporate Notes:** Unsecured debt obligations purchased in accordance with the investment policies and procedures adopted by the State Investment Board. Corporate notes must be rated at least weak single A (A-) or better by all the major rating agencies that rate the note at the time of purchase for inclusion in the corporate note portfolio. The maturity must not exceed 5.5 years and the maximum duration of the corporate note portfolio cannot exceed 3 years. The percentage of corporate notes that may be purchased from any single issuer rated AA- or better by all major rating agencies that rate the note is 3% of the assets of the total portfolio. The percentage of corporate notes that may be purchased from any single issuer rated in the broad single A (A-) category from all the major rating agencies that rate the security is 2% of the total portfolio. The individual country limit of non-U.S. and non-Canadian exposure is 2% of the total portfolio. The exposure is determined by the country of domicile of the issuers of portfolio securities.
- **Commercial Paper:** Commercial paper must be rated with the highest short-term credit rating category of any two major Nationally Recognized Statistical Ratings Organizations (NRSROs) at the time of purchase. If the commercial paper is rated by more than two NRSROs, it must have the

highest rating from all of them. Commercial paper holdings may not have maturities exceeding 270 days. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term senior unsecured credit rating at the time of purchase in one of the three highest rating categories of an NRSRO. The percentage of commercial paper that may be purchased from any one issuer is 3% of the market value of the total portfolio. Issuer constraints will apply to the combined holdings of corporate notes and commercial paper holdings.

- **Certificates of Deposit:** Non-negotiable Certificates of Deposit of financial institutions that are qualified public depositories as defined in RCW 39.58.010(2) and by the restrictions within.
- **Bank Time Deposits and Savings Accounts Issued by Banks:** Deposits in PDPC approved banks.
- **Banker's Acceptance:** Banker's Acceptances generally are created based on a letter of credit issued to finance transactions. They are used to finance the shipment of some specific goods within the United States. They are issued by qualified financial institutions eligible for discount by the Federal Reserve System.
- **Registered Warrants:** Subject to compliance with RCW 39.56.030, registered warrants of Cowlitz County taxing districts.
- **State Local Government Investment Pool:** Investment Pool managed by the Washington State Treasurer's Office.

## **11. PROHIBITED INVESTMENTS**

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Any investment outside of the authorized securities and deposits listed in statute and within this investment policy are unauthorized and prohibited by law. These include but are not limited to: Equity Securities, Leveraged Securities and Mortgage-Backed Securities.

## 12. DIVERSIFICATION

It is the policy of Cowlitz County to diversify its investment portfolio. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer or class of securities, all cash and cash equivalent assets in all funds shall be diversified by maturity, issuer and by the class of security. Diversification strategies shall be determined and revised periodically by the investment committee/investment officer for all funds. The County's investment portfolio will be limited as follows:

### Diversification Constraints – Total Funds:

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P, Moody's or Equivalent NRSRO	Maximum Maturity
US Treasury Obligations	100%	None	N/A	5.5 years
US Agency Obligations	100%	35%	N/A	5.5 years
Supranational Agency Notes	10%	5%	AA- / Aa3	5.5 years
Municipal Obligations	30%	5%	AA- / Aa3	5.5 years
Corporate Notes	25%	3%* for AA- 2%* for A-, A, A+	A- / A3	5.5 years
Commercial Paper		3%*	A1 / P1 Long Term A-/A3	270 days
Certificates of Deposit	25%	10%	Deposits in PDPC approved banks	5.5 years
Bank Time Deposits/Savings Accounts	20%	10%	Deposits in PDPC approved banks	N/A
Banker's Acceptance	20%	5%	N/A	N/A
State LGIP	100%	None	N/A	N/A

\*Issuer constraints apply to the combined issues in corporate and commercial paper holdings.

## 13. MAXIMUM MATURITIES

To the extent possible, the Treasurer will attempt to match investments with anticipated cash flow. The Treasurer will not directly invest in securities maturing more than five and a half (5.5) years from the date of purchase. Reserve or enterprise revenue funds may be invested in securities exceeding five and a half (5.5) years if the maturity of such investment is made to coincide as nearly as practical with the expected use of the funds. Taxing district funds may be invested in securities exceeding five and a half (5.5) years providing the investment complies with all other policies in this document and the request is generated by a resolution of the Districts governing authority.

The weighted average maturity of the total portfolio shall not exceed one and a half (1.5) years. The duration of the corporate note portfolio shall not exceed 3 years.

### Maturity Constraints on Total Portfolio:

<b>Maturity Constraints</b>	<b>Minimum % of Total Portfolio</b>
Under 30 days	10%
Under 1 year	25%
Under 5.5 years	100%
<b>Maturity Constraints</b>	<b>Total Portfolio Maximum</b>
Weighted Average Maturity	1.5 years
Duration of Corporate Note Portfolio	3.0 years
<b>Security Structure Constraint</b>	<b>Maximum % of Total Portfolio</b>
Callable Agency Securities	25%

## 14. SAFEKEEPING AND CUSTODY

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**1. Delivery vs. Payment:**

All security transactions entered by the Treasurer shall be conducted on a delivery versus payment (DVP) basis to ensure that securities are deposited in The County safekeeping institution prior to the release of funds.

**2. Safekeeping:**

Securities shall be held by an independent third-party custodian selected by the Treasurer. All transactions will be evidenced by safekeeping receipts. Upon request, the safekeeping institution shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16. The County will have online access through the safekeeping bank for verification of the account holdings and transactions.

## 15. INVESTMENT PROCEDURES

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**1. Operational Procedures:**

Day-to-day procedures concerning investment management and accounting are outside the scope of this policy. As deemed necessary, the Treasurer will establish written procedures for the operation of the investment program consistent with this policy.

**2. Internal and External Audit:**

The custodian/safekeeping account, investment transactions, and records may be audited by internal auditors independent of the Treasurer and/or by outside independent auditors with a frequency prescribed by the County.

**3. Internal Controls:**

The County Treasurer has established a system of internal controls over investments. The controls are designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by staff and County officials.

**4. Selling of Securities Prior to Maturity:**

- Securities purchased shall normally be held until maturity. Occasionally, opportunities will exist to sell securities prior to maturity and purchase other securities. These transactions shall only be considered, if the proposed transaction enhances the yield over the life of the new security on a total return basis.
- Additionally, securities that are no longer in compliance with the investment policy, due to downgrades or other factors, may be sold prior to maturity.
- Securities may also be sold in order to, maintain the liquidity of the pool.

**5. Compliance Calculation Parameters:**

Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular security. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made.

## **16. PERFORMANCE STANDARDS/BENCHMARK**

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The investment portfolio will be managed in accordance with the parameters specified within this policy. The investment portfolio will be designed to obtain an average rate of return during budgetary and economic cycles, consistent with the investment objectives and cash flow needs.

A series of appropriate benchmarks shall be established against which performance shall be compared on a regular basis. The benchmark will be reflective of the actual securities being purchased and the risks undertaken. The benchmarks will have a similar weighted average maturity as the portfolio. For purposes of evaluating the County's investment performance, the Treasurer uses the following indices:

- Washington State Local Government Investment Pool Yield
- A customized benchmark on a total return basis which is reviewed and approved by the Treasurer and Finance Committee

## **17. REPORTING**

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At least quarterly, a report will be submitted to the Cowlitz County Finance Committee for their review, summarizing the current position of the portfolio for the County. The Treasurer and Investment Officer shall report to the committee current investment strategy being followed and recent economic conditions and market developments which have a bearing on this strategy. This management report will be prepared in a manner which will allow the Finance Committee to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include:

- Portfolio Summary: Weighted average maturity, weighted average book yield, asset allocation by type, maturity distribution, and aggregate book and market values
- Individual Investments: Issuer, CUSIP or identifier, purchase date, maturity date, purchase yield, par value, book value, market value, credit rating
- Compliance Matrix: Stating the compliance or non-compliance of investments or parameters
- Performance of portfolio and its appropriate benchmark(s)
- Investment Income
- Transaction Information

## **18. INVESTMENT INTEREST ALLOCATION AND SERVICE FEES/EXPENSES**

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### **1. Interest Allocation**

Pooled Investments will be carried at amortized cost. Premiums or discounts on investments purchased at a price other than par will be accreted monthly over the expected life of the investment. Interest earnings will be accrued and credited monthly based on the daily principal balance maintained in the pool by the participants. Realized gains or losses from investments will be credited or charged to investment income at the time of the sale.

### **2. Fees**

The Cowlitz County Treasurer's office charges pool participants a fee representing administration and recovery costs associated with the operation of the pool. In accordance with RCW 36.29.024, this fee is intended to reflect the Cowlitz County Treasurer's actual direct expense and out-of-pocket cost of administering the pool.

The average periodic investment fee charged is on an annualized basis and will be based on the daily principal balance maintained in the pool by the participants. The rate may fluctuate due to the actual average principal balances being maintained in the pool differing from projected balances. The monthly interest allocations will be distributed net of fees. If there are no earnings, the administrative fee will be deducted from principal. Because most of the expenses in the CCIP are fixed costs, the fee will be affected by: (1) The amount of operating expenses; and (2) the total assets of the CCIP.

## 19. TRAINING REQUIREMENTS

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The County Treasurer and County staff is required to maintain a continued investment education program of at least 24 hours every two years. The goal of the education requirement is to support the skill set and current best practices by staff that are required to maintain a prudent investment program.

## 20. INVESTMENT POLICY ADOPTION

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This investment policy shall be adopted by vote of the County Finance Committee, and any modifications to it shall be similarly approved. The Finance Committee will review for appropriate modifications on a two-year basis. This policy supersedes and replaces prior policies. The revised Investment Policy of Cowlitz County as set forth in this document has been reviewed and is hereby accepted.

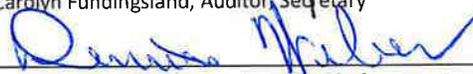
### FINANCE COMMITTEE



Debra Gardner, Treasurer, Chairwoman



Carolyn Fundingsland, Auditor, Secretary



Dennis Weber, Chairman of the Board of County Commissioners

February 1, 2023



Witness, Rachel Plank, Investment Officer

## GLOSSARY

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**Accrued Interest:** The interest accumulated on a bond since issue date or the last coupon payment. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

**Agency:** A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Government Sponsored Enterprises (GSEs) are backed by each particular agency with a market perception that there is an implicit government guarantee.

**Agency Securities:** Government sponsored enterprises of the US Government.

**Amortization:** In portfolio accounting, periodic charges made against interest income on premium bonds in anticipation of receipt of the call price at call or of par value at maturity.

**Asset:** Available property, as for payment of debts

**Average Maturity:** A weighted average of the expiration dates for a portfolio of debt securities. An income fund's volatility can be managed by shortening or lengthening the average maturity of its portfolio.

**Bankers Acceptances:** A time draft accepted (endorsed) by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. BAs are short-term non-interest-bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value.

**Bank Wire:** A virtually instantaneous electronic transfer of funds between two financial institutions.

**Basis Points:** A measure of an interest rate, i.e., 1/100 of 1 percent, or .0001.

**Bid:** The indicated price at which a buyer is willing to purchase a security or commodity. When selling a security, a bid is obtained. (See Offer)

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

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

**Certificates of Deposit:** Instruments issued by a bank specifying that a sum of money has been deposited, payable with interest to the bearer of the certificate on a certain date.

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

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

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

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

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

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

**Diversification:** Dividing available funds among a variety of securities and institutions so as to minimize market risk.

**Duration:** A measure used to calculate the price sensitivity of a bond or portfolio of bonds to changes in interest rates. This equals the sum of the present value of future cash flows.

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

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

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

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

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

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

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

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

**LGIP:** Local Government Investment Pool run by the State of Washington Finance Director's office established to help cities with short-term investments.

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

**Market Value:** The market value of a security is the price at which can be sold on that date.

**Maturity:** The date upon which the principal or stated value of an investment becomes due.

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

**Non-Discretionary Investment Advisor:** Non-discretionary investment advisor services may include investment management oversight, investment research, portfolio analysis, portfolio reporting and portfolio recommendations based upon the specific investment policy and investment objectives of each client. Clients must approve any such recommendations before the securities are purchased or sold in their accounts.

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

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

**Principal:** The cost of an instrument on which interest is earned.

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

**Quotation or Quote:** A bid to buy or the lowest offer to sell a security in any market at a particular time.

**Repurchase Agreement:** Range in maturity from overnight to fixed time to open end. Repos involve a simultaneous sale of securities by a bank or government securities dealer to an investor with an agreement for the bank or government securities dealer to repurchase the securities at a fixed date at a specified rate of interest.

**Safekeeping:** An arrangement under which an organization's securities are kept in a bank vault or in the case of book entry securities, are held and recorded in the customer's name. Evidence of this arrangement is a safekeeping receipt.

**Secondary Market:** A market where certain securities may be bought and sold at prevailing market prices after their initial distribution but before their stated maturity date.

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

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

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

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

**Ratings Table – Long-Term**

Three Highest Rating Categories	S&P	Moody's	Fitch	Definition
	AAA	Aaa	AAA	Highest credit quality
	AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-	Very high credit quality
	A+, A, A-	A1, A2, A3	A+, A, A-	High credit quality
	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	Good credit quality
	BB+, BB, BB-	Ba1, Ba2, Ba3	BB+, BB, BB-	Non-investment grade

**Ratings Table – Short-Term**

Highest Rating Category	S&P	Moody's	Fitch	Definition
	A1+, A1	P1+, P1	F1+, F1	Highest credit quality
	<b>Municipal Commercial Paper</b>			
	A-1, A-1+, SP-1+, SP-1	P1, MIG1, VMIG1	F1+, F1	Highest credit quality