



Purpose

To provide the authority to invest its funds in a manner which will provide for the security and integrity of Pool funds, while meeting cash flow requirements, and conforming to legal requirements governing the investment of funds.

Authority

1. RCW 48.62.111 (Investments—designated treasurer—deposit requirements—bond)
2. RCW 39.59 (Public funds—authorized investments)
3. WAC 200-100-037 (Standards for management and operations—financial plans)
4. Interlocal Agreement (Section 3, sub-section k)
5. Bylaws, Article X (Section 38—internal controls)

Policy Statement

1. Investment Priorities. In making investments the Pool shall be guided by applicable legal requirements and, in descending order of importance, the following:
 - a. Safety;
 - b. Availability of funds to meet Pool obligations; and
 - c. Yield.
2. Investments shall conform to RCW 48.62.111.
3. This Policy will be reviewed annually by the Executive Committee.

Investment Guidelines

1. The Pool shall invest funds in accordance with Addendum 1 to this Policy, which is attached hereto and incorporated herewith.
2. The order of precedence in investment of Pool funds shall be all applicable legal requirements, this Policy, and Addendum 1 in the event of any inconsistency which may exist now or in the future.
3. The Executive Director is designated as the agency investment officer (as further described in Addendum 1, Section 4) and shall submit investment status reports to the Executive Committee each quarter.


Amendment


The Executive Committee may amend this policy pursuant to the Bylaws, Section 18 (Powers).


Policy History and Repealer

Resolution No. 2-2003, Sections 6 and 13 (a) - (d) is hereby repealed. Adopted June 23, 2016. Revised September 29, 2017. Revised September 27, 2018. Revised in March 2024 to shorten the purpose statement.

Passed by the Executive Committee March 28, 2024.

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ADDENDUM 1 to the WSTIP Investment Policy



Washington State Transit Insurance Pool
Investment Guidelines

February 22, 2024

Guideline Statement

The Washington State Transit Insurance Pool (WSTIP) Investment Guidelines provides the authority to invest its funds in a manner which will provide for the safety of principal with a market rate investment return, while meeting daily cash flow requirements, and conforming to all state statutes governing the investment of funds.

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1.0 Introduction

These Investment Guidelines define the parameters within which funds are to be invested by the WSTIP staff. These guidelines are intended to be broad enough to allow WSTIP to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets. These guidelines apply to all activities related to the prudent investing of its financial assets.

2.0 Governing Authority

The Washington State Transit Insurance Pool investment program shall be operated in conformance with the Washington State Constitution, applicable Revised Code of Washington (RCW) statutes, State of Washington Administrative Codes (WAC's), and applicable Federal Law. These guidelines comply with WSTIP Governance Policy - Finance – Investment Policy, Policy Statement(s) 1; 2 and 3.

3.0 Controlling Objectives

All WSTIP investment activity will be conducted in a manner that emphasizes attainment of the following four (4) controlling objectives:

- **Legal Compliance**
WSTIP assets will be invested in a manner that meets all applicable statutory requirements.
- **Safety**
Safety of principal is a primary objective of WSTIP. Investing activities shall seek to ensure preservation of capital in the overall portfolio. To obtain this objective, funds may be diversified by investing among a variety of highly rated securities and financial institutions.
- **Liquidity**
To help ensure the availability of funds to pay Members' claims, a portion of the investment portfolio will remain liquid to enable WSTIP to meet all cash requirements that might reasonably be anticipated. Investments shall be managed to maintain a balance between meeting daily obligations and retaining an adequate reserve for potential future claims.
- **Return on Investment**
The investment portfolio will be structured with the objective of achieving or exceeding a market rate of return commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

4.0 Standards of Care

- **Chain of Authority**
Governing Body: The ultimate responsibility and authority for the investment of WSTIP's funds resides with the Executive Committee who have the authority to direct the management of the investment program.

WSTIP Executive Director: Management responsibility for the investment program is hereby delegated to the WSTIP Executive Director, who shall periodically review the procedures for the operation of the investment program, consistent with these investment guidelines. The Executive Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate all activities of the program.

- **Prudence**

The standard of prudence to be used in the context of managing the overall portfolio is the prudent person rule which states:

Investments will 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 about speculation but regarding the permanent disposition of the funds considering the probable income as well as the probable safety of the capital.

- **Conflict of Interests**

WSTIP employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. They shall disclose to the Executive Director and the Executive Board any material financial interests and any large personal financial / investment positions that could be related to the performance of WSTIP's portfolio.

5.0 Safekeeping, Custody, Fees, and Controls

- **Third Party Safekeeping**

The WSTIP Executive Director and Treasurer shall designate all safekeeping arrangements and an agreement of the terms shall be executed in writing. The third-party custodian shall be required to provide a monthly statement to WSTIP listing, at a minimum, each specific security, book yield, description, maturity date, market value, par value, purchase date, and **CUSIP** number. All securities pledged to WSTIP for certificates of deposit or demand deposits shall be held in a segregated account at the issuing financial institution.

- **Fees**

The WSTIP Executive Director and Treasurer shall review the fees charged to the Pool on no less than a quarterly basis as part of the monthly statement review to ensure the fees are in line with the agreement and the annual budget for that year.

- **Internal Controls**

The WSTIP Executive Director and Treasurer will establish and maintain internal controls designed to provide reasonable assurance that the assets of the WSTIP are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived.

6.0 Investing Parameters per RCW 39.59.040

- **Investment Strategy**

In accordance with these Investment Guidelines, WSTIP staff will create and periodically update an investment strategy reflecting on-going efforts to comply with its controlling objectives, considering changing conditions due to market fluctuations and/or the performance of specific investments. The strategy will be dynamic and regularly (at a minimum annually) reviewed by WSTIP management and adjusted as necessary.

- **Authorized Investments**

All investments of WSTIP are limited by the Washington State Constitution and applicable RCW's - principally RCW 35.59.

- **Description of Authorized Investments**

US Treasury Obligations: Direct obligations of the United States Treasury such as Treasury Bills, Treasury Bonds and Treasury Notes.

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

US Agency Obligations Secondary Issuers: Other US government sponsored enterprises that are less marketable are considered secondary GSEs.

Commercial Paper: Unsecured debt obligations of corporate issuers that are rated at least A1+ by S&P, P1 by Moody's and F1+ by Fitch. Must be rated by two 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 credit rating at the time of purchase with a minimum rating of AA- by S&P, Aa3 by Moody's or AA- by Fitch.

Investment Pools: Investment Pools managed by the Washington State Office of the Treasurer (OST) and the Thurston County Treasurer (TCT).

Separately Managed Accounts (SMA): Investment portfolio managed by the Washington State Office of the Treasurer (OST). Investments in the SMA are purchased by OST for WSTIP in the following the investment approach the OST uses for its own Core Investments.

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

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.

Municipal Debt Obligations: Bonds of the State of Washington, any local government in the State of Washington, General Obligation (GO) bonds outside the State of Washington; at the time of investment the bonds must have a minimum rating of AA- from S&P, Aa3 from Moody's or AA- from Fitch.

- **Diversification**

With respect to money that is invested, WSTIP is authorized to invest in and diversify its available funds as noted in the following table:

Issue Type	Maximum % of Total Portfolio
U. S Treasury Obligations	50%
Government Sponsored Enterprise (GSE) Agency Obligations	50%
TCT - Thurston County Investment Pool (TCIP)	100%
OST - Local Government Investment Pool (LGIP)	100%
OST - Separately Managed Account (SMA)	50%
Commercial Paper	15%
Time Deposits & Certificates of Deposits	25%
Municipal Debt Obligations	50%

- **Investment Maturity**

Liquidity Funds – Tier 1: Funds in the LGIP, TCIP, bank deposits, and bank certificates of deposits or money market instruments that are available for immediate use.

Investment Funds – Tier 2: Funds in the SMA program and funds defined as being more than liquidity and shorter-term reserve requirements. The investments in this portion of the portfolio will typically have maturities of up to three (3) years and will only be invested in higher quality and liquid (marketable) investment securities.

Investment Funds – Tier 3: Funds needed for longer term reserve requirements. The investments in this portion of the portfolio will typically have maturities of up to five (5) years and will be only invested in higher quality and liquid (marketable) investment securities.

Total Portfolio Maturity Constraints:

Maturity Constraints	Minimum % of Total Portfolio
Weighted Average Maturity	3 Years
Under 90 days	10%
Under 3 years	90%
Under 5 years	100%

- **Portfolio Allocation**

As a general practice, WSTIP investments will be purchased with the intent to hold to maturity. However, it is acceptable for investments to be sold under the following circumstances:

- An investment with a declining credit may be sold early to protect the principal value of the portfolio.
- The portfolio duration or maturity buckets should be adjusted to reflect better the structure of the underlying benchmark portfolio.
- A security exchange that would improve the quality, yield and target maturity of the portfolio based on market conditions.
- A sale of an investment to provide for unforeseen liquidity needs.

7.0 Authorized Business Partners

- **Thurston County Treasurer's Office (TCT) - Thurston County Investment Pool (TCIP)**
- **Washington State Office of the Treasurer (OST) - Local Government Investment Pool (LGIP)**

- **Washington State Office of the Treasurer (OST) - Separately Managed Account (SMA)**
The State of Washington Local Government Investment Pool (LGIP) and the Thurston County Investment Pool (TCIP) are the only government-sponsored pools approved for investment of funds. The Office of the Treasurer's Separately Managed Accounts (SMA) is the only government-sponsored non-pooled program approved for investment of funds. It is envisioned that investments made through these partners may require WSTIP to accept the investment partners investment policy as the governing investment policy for said investments. There may not be alignment on all investment approaches. However, as these partners are governed by the same Washington Statutes this policy permits the Executive Director to accept these partner investment policies as that which will govern the investment approach for the funds invested with these partners.

- **Bank Institutions**

WSTIP will only place funds exceeding the current FDIC insurance limits with banks who are currently participating in the Washington State Public Deposit Protection Commission (PDPC) program. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. Under the act, all public treasurers and other custodians of public funds are relieved of the responsibility of executing tri-party agreements, reviewing pledged securities, and authorizing additions, withdrawals, and exchanges of collateral.

8.0 Reporting

WSTIP will obtain and/or create fund reporting that will be available to the Executive Committee upon request for their review and oversight of investment portfolio activities. Investment reporting should reflect: Book Yield, holdings (including mark to market and security descriptions), transaction, weighted average maturity or duration, and fees charged to the Pool.

Additionally, WSTIP will routinely reconcile all investment activity to the organization's General Ledger accounts, for financial statement purposes.

GLOSSARY OF TERMS

- **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.
- **Commercial Paper:** Short-term, unsecured, negotiable promissory notes issued by corporations.
- **CUSIP:** A CUSIP number identifies securities. CUSIP stands for Committee on Uniform Security Identification Procedures, which was established to develop a uniform method of identifying municipal, U.S. government, and corporate securities.
- **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.
- **General Obligation Bonds (GOs):** Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.
- **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. Many buyers and sellers and a high volume of trading activity are important components of liquidity.
- **Mark to Market:** Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.
- **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.
- **Weighted Average Maturity:** Is the weighted average amount of time until the securities in a portfolio mature. The higher the weighted average maturity, the longer it takes for all of the holdings in the portfolio to mature.
- **Yield:** The annual rate of return on an investment, expressed as a percentage of the investment.