

KING COUNTY INVESTMENT POOL POLICY

July 26, 2017

This policy is effective immediately upon adoption and supersedes all previous King County Investment Pool Policies.

PURPOSE:

The purpose of this document is to set forth the investment objectives, investment strategies, and authorized portfolio securities for the management of the King County Investment Pool ("Pool"). The Pool consists of monies invested on behalf of the County and other special purpose districts within the County. The policy has been adopted by, and can be changed only by, a majority vote of the Executive Finance Committee (EFC). The policy is designed to help King County meet the objectives of the Pool and is consistent with State law. This policy shall be reviewed annually and any modifications shall be approved by the EFC.

SCOPE:

The policy applies to all financial assets invested in the Pool as defined in King County Code (KCC) 4.10.090. Non-pooled investments which do not meet the criteria of this policy require approval by the EFC.

http://www.kingcounty.gov/council/legislation/kc_code.aspx

POOL GOVERNANCE:

The King County Council has delegated authority (KCC 4.10.05) for oversight of the Pool to the EFC, which serves the role of the County Finance Committee as defined in RCW 36.48.070.

The Investment Pool Advisory Committee (IPAC) was created by Ordinance 16280 to provide input to the EFC on matters related to the Pool. The IPAC has not been vested with decision making authority for the Pool. The IPAC will make recommendations to the EFC on its agenda items related to the Pool.

PRUDENCE:

The Standard of Prudence to be applied to the administration of the Pool shall be the "prudent investor" rule, which states, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The prudent investor rule shall be applied in the context of managing all financial assets within the scope of this Policy.

OBJECTIVES:

It is the policy of the County to invest public funds in a manner which will preserve the safety and liquidity of all investments within the Pool while obtaining a reasonable return within established investment guidelines. The portfolio should be managed in a manner that is responsive to the public trust and

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consistent with State law. Accordingly, the Pool will be guided by the following principles, which are intended to supplement KCC 4.10.060:

1. The primary objective of King County's investment of public funds is to safeguard investment principal.
2. The secondary objective is to maintain sufficient liquidity to ensure that funds are available to meet daily cash flow requirements.
3. The third consideration is to achieve a reasonable yield consistent with these objectives.

DELEGATION OF AUTHORITY:

The Director of the Finance and Business Operations Division ("Director") is responsible for the management and investment of public funds (per KCC 2.16.035) and may delegate management responsibilities to King County employees under his control and supervision.

The Director shall be accountable for all investment transactions undertaken and shall establish a system of internal controls and written procedures to regulate investment activities and personnel. The Director shall also recommend policy changes to the EFC as necessary.

PARTICIPATION IN THE POOL:

Participation in the Pool is limited to King County government agencies and other special purpose districts, including school, fire, sewer, library, water and other districts within King County for which the King County Treasury Manager serves as Treasurer.

Other public entities located within King County, for whom the County does not serve as Treasurer, may also be considered for membership in the pool; provided that each entity sign and adhere to the terms and conditions of the Interlocal Agreement; and provided further that the Director may choose, at his/her discretion, to cap the amount the entity may invest in the pool at any given time in order to prevent very large cash withdrawals from adversely impacting the earnings of other pool members. If such a cap is requested, it shall be reflected in a written addendum to the Interlocal Agreement.

Interlocal Agreements: Special purpose districts are required to sign an Interlocal Agreement when entering the Pool. This Agreement shall renew automatically each year on the districts' anniversary date unless either the county or the district has exercised the termination options under Section VIII of the agreement. The Interlocal Agreement governs the district's investments and withdrawals from the Pool.

Fees and charges: The Pool assesses two fees, both of which are charged monthly as a percentage of the total assets invested in the Pool. The first fee is the Investment Pool Fee, which is a fixed rate established by the EFC and charged to all pool participants. RCW 36.029.022 limits that fee to no more than

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the actual cost of operating the pool. Within three months of the close of King County's fiscal year, the actual costs for operating the pool are determined and a rebate of the excess collected is made to pool members. The second fee is the Cash Management Pool Fee, which is set at 1.5% of the monthly pool earnings rate, not to exceed 8 basis points, regardless of the investment pool rate. It is charged only to those pool members that select to have their available balances automatically invested.

AUTHORIZED INVESTMENTS:

Investments in the Pool shall be restricted to those authorized in Washington State law and further restricted by Schedules herein.

AUTHORIZED BROKER/DEALERS:

The County shall maintain an 'Authorized Broker/Dealer List'. Security transactions are limited to dealers included on this list. Broker/Dealers must be approved by the County. To become "approved" by the County, a broker/dealer with whom the County does business shall comply with the requirements set forth in Schedule IV. The Finance and Business Operations Division will conduct an annual review of authorized broker/dealers to confirm adherence to minimum requirements as detailed in Schedule IV.

For best pricing in unusual sell situations, it is permissible to use a broker/dealer not on the 'Authorized Broker/Dealer List', but this broker/dealer must be authorized by the King County Treasury Manager or Director with subsequent reporting to the EFC. These unusual sell transactions can only be executed with primary dealers as defined by the New York Federal Reserve Bank.

CREDIT REVIEW PROCESS:

The County shall maintain an 'Approved Credit List'. A description of this process and applicable guidelines are described in more detail in Schedule V.

INTERNAL CONTROLS & AUDITS:

The County has established a system of internal controls to provide reasonable assurance that the Pool is operating effectively and efficiently, that financial reporting is reliable and that the Pool is in compliance with applicable laws and regulations. The concept of reasonable assurance recognizes that the cost of control shall not exceed the benefits likely to be derived and that the valuation of costs and benefits require estimates and judgments by management. The County shall develop and maintain written procedures for the operation of the investment program, which are consistent with this policy. These procedures shall include reference to subjects like segregation of duties, safekeeping, collateralization, wire transfers and banking related activities.

The State Auditor's Office conducts an examination of King County's financial affairs at reasonable, periodic intervals as the state auditor shall determine in accordance with RCW 43.09.260. This review helps to ensure compliance with

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applicable laws, regulations and Generally Accepted Accounting Principles (GAAP). In the past, this examination has occurred annually.

SECURITY CUSTODY & DELIVERIES:

All security transactions are to be conducted on a “delivery-versus-payment basis” (DVP).

All securities purchased shall be deposited for safekeeping with the custodial bank that has been contracted to provide the County with custodial security clearance services or with a tri-party custodian bank under a written tri-party repurchase agreement. Certificates of Deposit (CDs) and funds placed with the State of Washington Local Government Investment Pool are exempt from the DVP policy. Securities are not to be held in investment firm/broker dealer accounts. All securities will be held in the name of the County or in the nominee name of its custodian bank and reconciled monthly.

COMPETITIVE TRANSACTIONS:

For all transactions the County should seek to receive three (3) competitive bids or offers from authorized broker/dealers.

In cases where it may not be possible to obtain three (3) simultaneous bids or offers, electronic trading systems may be relied on to verify whether a bid or offer reflects a fair market value.

Evaluating prices for less liquid securities or securities with optionality such as, callable and mortgage-backed securities, will be accomplished using financial tools such as Option Adjusted Spread, Total Return, Breakeven, Spread analysis, etc. These types of securities will often be compared to similar, but not identical, securities to determine relative value.

A security with a higher price may be purchased instead of another similar alternative, if this higher priced security improves the portfolio’s safety, liquidity, or diversification.

Securities that may be purchased without direct competitive offers include:

- Local government investment pool transactions.
- Certificates of deposit that are pledged to the State to satisfy pension obligations.
- Overnight repurchase agreements and bank savings accounts.
- Securities obtained through U.S. Treasury auctions.
- Primary issuances of U.S agency, municipal, and corporate offerings.

When investments are purchased directly from issuers (e.g. certificates of deposit) market prices shall be documented by reference to offerings of similar securities that are of comparable rating and maturity by other direct issuers.

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All securities transactions will be documented and retained in the daily investment file or trade logs.

LIQUIDITY AND MATURITY STRUCTURE:

Maintenance of adequate liquidity to meet the cash flow needs of the Pool is essential. Accordingly, investments for the Pool will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities will be consistent with the liquidity requirements of the Pool in order to avoid the forced sale of securities prior to maturity.

The Pool will maintain an effective duration of 1.5 years or less. To provide sufficient liquidity to meet daily expenditure requirements, the portfolio will maintain at least 40% of its total value in securities having a remaining maturity of 12 months or less. This duration, when combined with the minimum percentage that must mature within 12 months, provides an appropriate balance between the Pool's objectives.

PERFORMANCE EVALUATION:

Pool performance is evaluated monthly against a customized book value rate of return benchmark, which in keeping with the management philosophy and strategy of the Pool results in a steadier, more predictable rate of return than a total return benchmark. The benchmark reflects the average composition, target maturity and duration and risk tolerances of the pool. The composition of this benchmark is the weighted average book value return of the following benchmarks:

40% Bank of America Merrill Lynch 90-Day Treasury Bill Index

60% Bank of America Merrill Lynch 1-3 Year US Treasury & Agency Index

IMPAIRED INVESTMENTS:

In the event any investment becomes impaired, as defined in the Impaired Investment Policy (Schedule VI), the investment will be treated as detailed in Schedule VI.

TRADING & EARLY SALE OF SECURITIES:

Securities should be purchased, generally, with the intent of holding them until maturity. However, in an effort to minimize market risks, credit risks, and increase the overall portfolio yield, securities may be sold prior to maturity either at a profit or loss when economic circumstances or a deterioration in creditworthiness of the issuer warrant a sale of the securities to either enhance overall portfolio yield or to minimize loss of investment principal.

In the event of a material downgrade of a security held in the portfolio, the Investment Officer or Credit Analyst shall report the downgrade to the Treasury Manager or his/her designee and the Director. In the event of a downgrade below the minimum credit ratings authorized by this policy, the security shall be

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evaluated by the Treasury Manager or his/her designee on a case-by-case basis to determine whether the security shall be sold or held. It is preferred to sell such a security if there is no book value loss.

In the event a sale of a downgraded security would result in a loss, the Treasury Manager or his/her designee will evaluate whether to hold or sell the security based on the amount of loss, remaining maturity and any other relevant factors. The Director shall make the final decision regarding whether to hold or sell the downgraded security and shall inform the EFC of such decision in advance of executing the transaction, with the understanding the Director has the authority to inform the EFC after the transaction in circumstances that require an expedited decision on behalf of the Pool and its members.

PURCHASE OF 'WHEN ISSUED' SECURITIES:

Purchases for the sole purpose of trading these securities prior to cash settlement are discouraged. Purchases of 'when-issued' securities are otherwise authorized as long as sufficient cash is available to consummate their acceptance into the Pool portfolio on the settlement date, and at purchase there is the ability to hold them in the portfolio to maturity without violating any of the diversification/maturity limits of this policy (based on settlement date).

PORTFOLIO REPORTING:

The EFC shall be provided consistent periodic reporting. These reports shall provide an accurate and meaningful representation of the investment portfolio, its performance versus the established benchmark, and proof of compliance with the investment policy. Reports will include at a minimum:

- A listing of individual securities held at the end of the reporting period.
- Effective duration and final maturity of all investments listed.
- Coupon, discount or earnings rate.
- Par value, amortized book value and market value.
- Percentage of the portfolio in each investment category.
- A listing of all transactions, other than overnight investments, executed during the reporting period.

On a quarterly basis, the Pool's financial consultant shall conduct a review of the portfolio. The review shall include at a minimum:

- Compliance reporting.
- Summary of market news and events as it relates to portfolio diversification.
- Commentary on the pool's asset credit quality, liquidity and maturity distribution.

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ETHICS:

Officers and staff members involved in the investment process shall maintain a code of ethics that is in compliance with the provisions of the Employee Code of Ethics KCC 3.04.

<http://www.kingcounty.gov/employees/ethics/ecomplete.aspx>

CONTINUING EDUCATION:

It is King County's policy to require periodic investment training for any county employee delegated the authority to manage daily investment transactions for the Pool. The Director shall designate employees who should obtain at least twenty (20) hours of investment-related training each year. A CFA Institute member or non-member employee can satisfy this requirement by fulfilling the CFA Institute Continuing Education (CE) Program.

POLICY ADOPTION & AMENDMENTS:

The King County Executive Finance Committee, or its successor, shall adopt and may periodically amend the policies governing the Pool. Except in an emergency, the Executive Finance Committee, or its successor, will consult with the Investment Pool Advisory Committee at least 60 days prior to adopting or implementing changes to any policies governing the Pool.

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SCHEDULE I

AUTHORIZED INVESTMENTS MATRIX:

The following table should be considered along with the Schedules that follow. These Schedules provide additional information on criteria and restrictions that apply to many of the Authorized Investments listed in the table.

AUTHORIZED INVESTMENTS	MAXIMUM PORTFOLIO ALLOCATION (% of portfolio's book value at time of purchase)	ISSUER RESTRICTIONS (% of portfolio's book value at time of purchase)	CREDIT QUALITY (at time of purchase) (S&P/MOODY'S/FITCH)	MATURITY RESTRICTONS
U.S. Treasuries or full faith and credit of the U.S. government. (MBS restrictions apply as noted in section below)	100% (10% in the case of Treasury Inflation Protected Securities)	None	Not Applicable	Up to 5 years
U.S. agencies, instrumentalities, or government-sponsored enterprises ("Federal Agencies") (MBS restrictions apply as noted in section below)	100%	Maximum 35% exposure to any single Agency	Senior debt obligations issued by any government sponsored enterprise, agency or instrumentality of the United States.	Up to 5 years
Repurchase Agreements – Top Tier Rating (A-1 or P1)	100%	100% for repurchase agreements with the Federal Reserve Bank of New York 25% maximum exposure to any one repo counterparty. For the purposes of aggregating issuers across sectors, overnight repo counterparties shall NOT be included.	The counterparty must have: 1. A rating in the highest short-term credit rating category by at least one Nationally Recognized Statistical Rating Organization (NRSRO) or possesses a guarantee by an entity with such a rating; and 2. A minimum asset and capital size of \$5 billion in assets and \$175 million in capital	60 days or less
Repurchase Agreements – Second Tier Rating (A-2 or P-2)	10%	5% maximum exposure to any one repo counterparty. For the purposes of aggregating issuers across sectors, overnight repo counterparties shall NOT be included.	The counterparty must have: 1. A rating in the second highest short-term credit rating category by at least one Nationally Recognized Statistical Rating Organization (NRSRO) or possesses a guarantee by an entity with such a rating; and 2. A minimum asset and capital size of \$5 billion in assets and \$175 million in capital	Overnight Only

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AUTHORIZED INVESTMENTS	MAXIMUM PORTFOLIO ALLOCATION (% of portfolio's book value at time of purchase)	ISSUER RESTRICTIONS (% of portfolio's book value at time of purchase)	CREDIT QUALITY (at time of purchase) (S&P/MOODY'S/FITCH)	MATURITY RESTRICTONS
Reverse Repurchase Agreements	20%	5% per investment dealer	<ol style="list-style-type: none"> 1. rated in the highest short-term credit rating category by at least one NRSRO; and 2. a minimum asset and capital size of \$5 billion in assets and \$175 million in capital 	6 months or less
Local Government Investment Pool ("LGIP")	25%	State of Washington LGIP	Not Applicable	Not Applicable
Bankers' Acceptances	25%	<p>Must be issued by a bank organized and operating in the U.S.</p> <p>Maximum 5% per issuer applied across investment types.</p>	Rated in the highest short-term credit rating category by at least two NRSROs.	Up to 180 days
Certificates of Deposit	25%	<p>Must be a public depository in the State of Washington.</p> <p>Maximum 5% per issuer applied across investment types.</p>	<p>See RCW 39.58 of the state Code.</p> <p>If not 100% collateralized, must be rated in the highest short-term rating category by at least one NRSRO.</p> <p>Those institutions not meeting the 100% collateralization or minimum credit requirements may receive deposits up to the FDIC or federally guaranteed amounts.</p>	Up to 1 year
Commercial Paper	<p>25% of total market value when combined with Corporate Notes.</p> <p>When combined with Banker's Acceptance, Certificates of Deposit, Term Repos (greater than overnight) and Corporate Notes not to exceed 50% of the Pool assets.</p>	<p>Secondary market purchases only.</p> <p>Must be issued by a corporation organized and operating in the U.S.</p> <p>Maximum 3% per issuer in combined categories of commercial paper and corporate notes.</p> <p>Maximum 5% per issuer applied across investment types.</p>	<p>Purchases with greater than 100 days maturity must have an issuer long-term rating in one of the three highest credit rating categories by one major NRSRO.</p> <p>Rated in the highest short-term rating category by at least two major NRSROs. If the commercial paper is rated by more than two major NRSROs, it must have the highest rating from all of the organizations.</p> <p>State law requires that Commercial Paper be purchased only from dealers.</p>	270 days

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AUTHORIZED INVESTMENTS	MAXIMUM PORTFOLIO ALLOCATION (% of portfolio's book value at time of purchase)	ISSUER RESTRICTIONS (% of portfolio's book value at time of purchase)	CREDIT QUALITY (at time of purchase) (S&P/MOODY'S/FITCH)	MATURITY RESTRICTONS
General Obligation Municipal Bonds	20%	5% of portfolio: bond issues by pool participants must be purchased on the secondary market only	Rated in at least the highest three long-term rating categories by at least one NRSRO.	5 years
Mortgage-Backed Securities	25%	<p>Must be issued by Federal Agencies of the United States.</p> <p>Investments in MBS will count toward the total that can be invested in any one agency as described in U.S. Agencies above.</p> <p>Full faith and credit MBS are limited to 25%.</p>	<p>Senior debt obligations issued by any government sponsored enterprise, agency or instrumentality of the United States.</p> <p>The securities must pass the Federal Financial Institutions Examination Council ("FFIEC") suitability test, which banks use to determine lowest risk securities.</p>	5 year average life at time of purchase
Corporate Notes	<p>25% of total market value when combined with commercial paper.</p> <p>When combined with Banker's Acceptance, Certificates of Deposit, Commercial Paper and Term Repos (greater than overnight) not to exceed 50% of the Pool assets.</p>	<p>3% per issuer rated AA or better.</p> <p>2% per issuer rated in broad single A category.</p> <p>Split ratings will take most conservative rating.</p> <p>Maximum 3% per issuer in combined categories of commercial paper and corporate notes.</p> <p>Maximum 5% per issuer applied across investment types.</p>	<p>Must be rated at least in the broad single A category or better.</p> <p>Broad single A category with a negative outlook may not be purchased.</p>	<p>5 years</p> <p>The maximum duration of the corporate notes portfolio shall not exceed 3 years.</p>

Notes:

1. Floating rate and variable rate securities are permitted subject to the following criteria:
 - a. The rate on the FRN/VRN resets no less frequently than quarterly; and
 - b. The FRN/VRN is indexed to a money market rate.
 - c. The maturity of floaters will be viewed to the final maturity date and the duration of floaters will be viewed to the next reset date.
2. Major NRSRO is defined as Moody's and Standard & Poor's.
3. Purchases prior to 9/15/16 are considered grandfathered in for issuer limit purposes and can be held to maturity.

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SCHEDULE II

REPURCHASE AGREEMENTS

The Pool makes regular use of repurchase agreements (repos) to meet its investment needs. Such transactions are governed by a Master Repurchase Agreement. The following criteria apply:

1. Repurchase agreement counterparties will be limited to (i) primary government securities dealers who report daily to the Federal Reserve Bank of New York or (ii) banks, savings and loan associations or diversified securities broker-dealers subject to regulation of capital standards by any state or federal regulatory agency. Please see Schedule I for counterparty qualifications.
2. All securities used in deliverable repurchase transactions will be delivered to King County's safekeeping bank. All securities used in a tri-party repurchase agreement must be delivered to a tri-party safekeeping account. A tri-party agreement is required to be signed by all participating parties. Tri-party custodians are required to provide the County with evidence of collateral ownership.
3. Securities used in tri-party repurchase agreements must have a market value equal to at least 102% of repurchase price, plus accrued interest. Tri-party custodians are required to mark collateral to market and rebalance accounts daily. For deliverable repurchase agreements with terms from 1 to 30 days, the market value of the collateral must equal at least 102% of the repurchase price, plus accrued interest. 102% collateralization is required for terms 31 to 60 days.
4. Repurchase agreements have a maximum maturity of 60 days.
5. All participating dealers are required to sign a SIFMA Master Repurchase Agreement.
6. Collateral for repurchase agreements will be limited to U.S. Treasury and U.S. Agency securities.

REVERSE REPURCHASE AGREEMENTS:

A reverse repurchase agreement ("reverse") is an investment transaction in which securities in King County's portfolio are sold and an agreement is made to buy back the securities at a later date. This agreement discloses a repurchase price, which would include a specified interest rate that is applied against the original proceeds. Although reverses can be used as a borrowing mechanism, the proceeds are generally reinvested in another instrument to a date similar to the maturity of the reverse. The new instrument provides a greater rate of return than the rate paid on the reverse.

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LIMITATIONS ON USE

1. King County will not use reverses to borrow funds for any purpose.
2. King County will use only reverses that are “match book” transactions. A match book means that the maturity date of the acquired security is identical to the end date of the reverse.
3. King County will enter into reverses only with firms with which they have adopted a master repurchase agreement. (see below)
4. King County will not enter into a reverse repurchase agreement for periods exceeding six months.
5. King County will not reverse more than 20% of the total balance of the Investment Pool at any one time.

MASTER REPURCHASE AGREEMENT:

A master repurchase agreement contract which defines the responsibilities of both parties has been developed by King County. The County requires all firms to sign the agreement before being allowed to do repos/reverses with the County.

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SCHEDULE III

POLICY CRITERIA FOR INVESTMENTS IN CERTIFICATES OF DEPOSIT:

Certificates of Deposit (CD's) can be placed only with institutions that are public depositories in the State of Washington. RCW 39.58 governs public depositories and provides that, "All public funds deposited in public depositories, including investment deposits and accrued interest thereon, shall be protected against loss, as provided in the chapter".

POLICY ON EARLY REDEMPTION IN THE EVENT OF FAILURE:

Because of deposit protection regulations, risk of loss of principal is minimal for investment deposits in a bank or thrift institution. However, in a bank failure, assets of an institution may be frozen while regulatory authorities ascertain account balances and liabilities. If a CD matures during that time, cash flow problems may result or the opportunity to reinvest those funds may be lost.

If a bank or thrift institution should fail, or the EFC has reason to believe it may fail, King County may withdraw a CD prematurely. If the early redemption results in any loss of principal or interest, the redemption must have the approval of the Treasury Manager or his designee.

POLICY ON BANK AND THRIFT CREDIT EVALUATION:

King County establishes deposit limitations beyond those provided by RCW 39.58, for all financial institutions with which deposits are placed, based upon a financial analysis of those institutions.

LIMITATIONS

RCW 39.58 provides that the deposits of a municipal body cannot exceed the net worth of an institution.

If CDs are not 100% collateralized, the County further limits deposits to only those institutions rated in the highest short-term credit rating category by at least one NRSRO.

Those institutions not meeting 100% collateralization or the minimum credit requirements may receive deposits up to the FDIC or federally guaranteed amounts.

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SCHEDULE IV

BROKER/DEALER SELECTION POLICY

AUTHORIZED BROKER/DEALERS:

The Finance and Business Operations Division will maintain an Authorized Broker/Dealer call list of firms that have established relations with the County.

All broker/dealers that wish to be considered for addition to the established Authorized Broker/Dealer List must meet the following minimum requirements:

1. Confirm that they are a member of the Financial Industry Regulatory Authority (FINRA), registered as a dealer under the Securities Exchange Act of 1934, and be registered with the Securities Division of the Washington State Department of Financial Institutions.
2. Be of high integrity and assign personnel to King County's account of equally high integrity. This is crucial to King County's intent is to enter into a long-term relationship.
3. Acknowledge receipt of King County's written Statement of Investment Policy.
4. Sell all securities subject to delivery at King County's custodial banks. With the exception of collateral calls on repurchase agreements, all transactions are to be conducted on a delivery vs. payment (DVP) basis.
5. Demonstrate they have been in operation of effecting transactions in authorized investments of this Policy for at least five (5) years.
6. Must be either on the Primary Government Securities Dealers list published by the Federal Reserve Bank of New York or be a non-primary broker/dealer that qualifies under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) with a minimum of \$175 million of regulatory capital.
7. All firms with whom the County does business must have adequate financial strength which will be assessed by a review of the firm's financial statements and other factors, as determined by the County.
8. Broker/Dealers may also provide related services that are considered optional, including:
 - a. An active secondary market for its securities (provided that this would be a required service for commercial paper broker/dealers).
 - b. Internal credit research analysis on commercial paper, bankers' acceptances and other securities it offers for sale.
 - c. Be willing to purchase securities from King County's portfolio.

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- d. Be capable of providing market analysis, economic projections, and newsletters.

REGISTERED REPRESENTATIVE EXPERIENCE REQUIREMENTS FOR ADDITION TO AUTHORIZED BROKER/DEALER POOL LIST:

In order to be considered the registered representative of the firm must be registered with the Securities Division of the Washington State Department of Financial Institutions and meet at least one of the following minimum requirements:

1. Have six years of experience as an institutional fixed income registered representative.
2. Have five years of experience as a fixed income trader, or portfolio manager with at least one year of experience as an institutional fixed income registered representative.
3. Have one year of experience as an institutional fixed income registered representative and holds the Chartered Financial Analyst designation.

APPLICATION PROCESS:

A securities firm and registered representative that meets the above criteria can contact the King County Finance and Business Operations Division regarding inclusion on King County's waiting list. Contact should be made with: Treasury Manager at (206) 263-2860 or Investment Officer at (206) 263-2866, or in writing to King County Administration Building, 500 4th Avenue Room 613, Seattle, WA 98104. If the firm meets the minimum requirements they will be forwarded a copy of this policy and King County's master repurchase agreement, if appropriate.

Each firm will be required to submit a copy of their latest financial report, a completed copy of King County's dealer questionnaire and certification, the resumes of the persons who will cover King County's account, delivery instructions, an organization tree that shows all the parent and subsidiary relationships and ownership percentages, and any other pertinent information necessary to conduct business.

EVALUATION PERIOD:

Depending on need, the County may hold two six-month new dealer evaluation periods during the year: These evaluation periods will normally be from January 1 to June 30 and July 1 to December 31

To be eligible to be selected to participate in the evaluation period, each new firm must submit all the information required by this policy three months before the start of the evaluation period. The County will review the material submitted and evaluate each firm versus King County's needs. Firms that are selected to participate in an evaluation period will be notified shortly before the beginning of the period, and the County will furnish the firm with an executed trading authorization and delivery instructions. Firms that meet the minimum requirements, but miss the deadline or are not selected for the upcoming evaluation period, may be considered for the following evaluation period. A firm may be dropped prior to the completion of the six month period, if the County determines that continuing the relationship is not in its best interest.

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FIRM SELECTION:

Both the firm representatives will be evaluated on the material they submit prior to an evaluation period. Firms will be rated by their product offerings, electronic inventory delivery systems, financial strength, reputation, and research products. Registered representatives will be evaluated on their experience, product knowledge, references, professionalism, and communication skills. Equal weighting will be given to the firm and the registered representatives. All else being equal, firms with institutional fixed income sale offices in King County may be given preference.

ADDITION TO PRIMARY CALL LIST:

Firms that demonstrate that they can add value to King County's investment program during the evaluation period will be added to the primary call list. Each firm will be reviewed with respect to its market analysis, knowledge and understanding of King County's investment program, and the professional conduct demonstrated by their personnel. Generally, a firm must have demonstrated during the evaluation period that it is handling at least 5% of King County's investment transactions, or provided other valuable services that other firms on the authorized Broker/Dealer list are not providing.

Even if a firm does more than 5% of the investment transactions, it may not be added to the list if, in King County's opinion, the registered representatives utilize over aggressive sales techniques, are difficult to work with, are not considerate of the investment staff's time, recommend securities not authorized by this policy or are untrustworthy.

DELETION FROM PRIMARY CALL LIST:

Firms may be dropped from the Authorized Broker/Dealer List when they have been unable to achieve 5% of King County's business during a six-month period. The determination of whether to drop a firm will also be based on King County's long-term experience with the firm, and whether the drop in business is due to temporary conditions. The firm may also be retained on the list if it provides other valuable services such as unique research or pricing on difficult-to-price securities. If the County determines that it would be better served by retaining the firm, but changing the registered representative that is covering the County, the County may request that King County's account be switched to another registered representative.

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DEALER QUESTIONNAIRE

1. Name of Firm
2. Address Regional/local National offices
3. Telephone number () Regional/Local
() National Headquarters
4. Primary representative/manager/partner-in-charge

Name	Name
Title	Title
Telephone No. ()	Telephone No. ()
Fax No. ()	Fax No. ()
5. Are you a primary dealer in U.S. Government securities?
 Yes No
6. If so, for how long has your firm been a primary dealer? _____ years
7. What was your firm's total volume in U.S. Government and agency securities trading last year?

Firm-wide \$	Number of Transactions
Your local/regional office \$	Number of Transactions
8. Which instruments are offered regularly by your local/regional desk?

<input type="checkbox"/> T-bills <input type="checkbox"/> Treasury notes/bonds <input type="checkbox"/> Agencies (specify) <input type="checkbox"/> Corporate Notes <input type="checkbox"/> Other Instruments (list below) _____ _____ _____	<input type="checkbox"/> Taxable Municipals <input type="checkbox"/> Bankers Acceptances (BAs) <input type="checkbox"/> Term Treasury or Agency repurchase agreement <input type="checkbox"/> Commercial Paper <input type="checkbox"/> Agency Mortgage-backed CMOs
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------
9. Identify all personnel who will be trading with or quoting securities to the King County Finance Division.
()
()
()
()
()
()
10. Which of the above personnel have read King County's investment policies?

KING COUNTY INVESTMENT POOL POLICY

11. Indicate which of the above agents of your firm's local/regional offices currently are licensed, certified or registered, and by whom.

Agent

Licensed or registered by

12. Identify your public-sector clients in our geographical area who are most comparable to King County's.

Entity

Contact Person

Telephone No.

Client since

()
()
()

13. Has your firm ever been subject to a regulatory or state or federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of government securities or money market instruments? Have any of your employees ever been so investigated? Explain.

14. Has a public-sector client ever claimed that your firm was responsible for investment losses? Explain.

15. Include samples of research reports that your firm regularly provides to public-sector clients.

16. Explain your normal custody and delivery process. Who audits these fiduciary systems?

17. Provide certified financial statements and other indicators regarding your firm's capitalization.

18. Describe the capital line and trading limits that support/limit the office that would conduct business with our government.

KING COUNTY INVESTMENT POOL POLICY

19. What training would you provide to our employees and investment officers?

20. Has your firm consistently complied with the Federal Reserve Bank's capital adequacy guidelines? As of this date, does your firm comply with the guidelines? Has your capital position ever fallen short? By what factor (1.5x, 2x, etc.) does your firm presently exceed the capital adequacy guidelines? Include certified documentation of your capital adequacy as measured by the Federal Reserve standards.

21. Do you participate in the Securities Investor Protection Corporation (SIPC) insurance program? If not, explain why not.

22. What portfolio information do you require from your clients?

23. What reports, transactions, confirmations and paper trail will we receive?

24. How many and what percentage of your transactions failed last month? Last year?

25. Does your firm list its inventory on Bloomberg's BOOM and Bloomberg Bond Trader (BBT) screens?

26. Does your firm list inventory on Tradeweb? If so, which products are listed there?

27. If your firm is a subsidiary, please describe any written financial guarantees that your parent has entered into that provide financial support to your organization.

28. Describe the precautions taken by your firm to protect the interests of the public when dealing with governmental agencies as investors.

KING COUNTY INVESTMENT POOL POLICY

CERTIFICATION

I hereby certify that all personnel who will be handling King County's account have personally read King County's investment policy, and that I am authorized to execute this request on behalf of the firm.

As a Securities and Exchange Commission (SEC) registered broker or dealer and a member of FINRA, the firm is subject to the federal securities laws and regulations, and the rules of the SEC and FINRA. Those rules establish, among other things, obligations regarding the suitability of investment recommendations and prohibitions on the use of fraudulent and deceptive practices. I hereby certify that the firm has in place policies and procedures and a system of supervision that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable SEC and FINRA rules.

Signed: _____ Title: _____

Name (print): _____ Title (print): _____

Date: _____

KING COUNTY INVESTMENT POOL POLICY

SCHEDULE V

CREDIT REVIEW PROCESS

APPROVED CREDIT LIST:

The County shall maintain an approved credit list to help manage the Pool's exposure to issuers that present some element of credit risk. Those listed issuers would include all investment types, with the exception of those backed by the full faith and credit of the US Treasury, Federal Agencies, the Washington State LGIP, repurchase agreements, 100% collateralized certificates of deposit, and FDIC-insured investments. This list shall assist the County in determining a prudent credit profile amongst its holdings.

CREDIT COMMITTEE (CC):

The purpose of the credit committee is to:

- Review the quality of the approved credit list
- Review the effectiveness of credit related processes
- Provide guidance to the EFC for new credit approvals or removals from the approved credit list.

The CC members include the King County Treasury Manager, the King County Chief Investment Officer, the King County Senior Debt Analyst, and the King County Chief Economist. The CC holds meetings on a monthly basis and takes action through consensus of its members. Its actions are reported in meeting minutes. In the case of vacancies, the acting representative in the position will replace the CC member. Committee members and King County credit analyst may attend educational events sponsored by broker/dealers, vendors, professional organizations or rating agencies to keep abreast of market developments.

EXTERNAL SOURCES:

The County may seek to supplement its resources through the services of external parties. Services to be sought externally could include, but would not be limited to:

- providing advice on credit review procedures and framework
- providing advice on changes in the credit profile of particular industries and/or sectors
- monitoring the credits held by the County and alerting the County to any developments with those or similar credits,
- researching specific credit issues or issuers
- providing advice on issuers to be added to the approved credit list or removed from the approved credit list

KING COUNTY INVESTMENT POOL POLICY

SCHEDULE VI

IMPAIRED INVESTMENT POLICY

1.0 Purpose

1.1 This policy is adopted by King County's EFC to address the treatment of impaired investments, as defined in Section 2.0, consistently with applicable law and the terms of the investment agreements with pool members. The policy addresses how to provide fair and equitable treatment of pool members' interests in the event one or more of the pool investments becomes impaired.

1.2 The policy specifically addresses situations involving pool members who are completely withdrawing from the pool or who are removing substantial funds from the pool prior to the distribution of any realized loss.

2.0 Definitions

2.1 Impaired Investment: An investment is deemed to be "impaired" when: (a) its credit quality is rated below investment grade by Standard & Poor's, Moody's and/or Fitch; (b) a default has occurred on payment at maturity; or (c) an enforcement event, as defined in the investment's program documents, has occurred. An impaired investment is also referred to as "distressed."

2.2 Unrealized Loss: A loss calculated using the fair value of the investment, but which has not been realized through a transaction such as the sale of a security. It is also referred to as a "paper loss." An unrealized loss is not distributed to pool members.

2.3 Realized Loss: A loss that is recognized when investments are sold for a price lower than the carrying value or it is determined that the investment has no value and therefore it is not possible to sell the security at any price. This loss is distributed to pool members.

2.4 Fair Value: This is the amount at which an investment is being exchanged in a current transaction between willing parties. In conditions where market pricing is not available, other generally recognized valuation methodologies may be used.

2.5 Par Value: This refers to the nominal or face value of a security. The par value is the amount the issuer is obligated to pay the investor when the security matures.

3.0 Goals

The policy is intended to serve the following goals among others:

3.1 Seek Options to Recover Principal: The pool will first seek options that allow for the recovery of the principal value of the impaired investment over time, thereby avoiding a realized loss. Any selected option must be justified in terms of risk, cost/benefit, and legal soundness.

KING COUNTY INVESTMENT POOL POLICY

3.2 Distribute Any Realized Loss Fairly and Equitably: If a loss must be realized, the loss will be distributed in a manner that is fair and equitable to pool members, as set forth in this policy.

3.3 Protect New Monies Entering Pool: The pool will seek to isolate a realized loss impact in such a way that new monies entering the pool after an investment is deemed impaired will not be factored into the calculation and distribution of the realized loss.

3.4 Prevent a Run on the Pool: The County will not allow members to exit the pool or remove substantial balances from the pool in order to avoid loss exposure, thereby undermining the confidence of remaining pool members. The County will ensure that those pool members completely exiting the pool or withdrawing substantial funds from the pool are required to leave sufficient funds in the pool to offset the maximum potential future realized loss on any investment that is impaired at the time of withdrawal or exit.

4.0 Distributing a Realized Loss—Holding Period Method

4.1 A realized loss will be apportioned based on each pool members' average cash balance from the time the impaired investment was acquired through the date the investment is deemed impaired. This is referred to as the "holding period" for the impaired investment.

4.1.1 Example: An impaired commercial paper investment acquired on April 18, 2007 enters into an accelerated enforcement event on October 17, 2007. If the total realized loss to the pool is \$10 million and a pool member has an average cash balance equal to 1 percent of the pool during this time period, then the pool member is apportioned \$100,000 for the loss.

4.2 This treatment of losses protects new monies which enter the pool after the date an investment is deemed impaired from being exposed to a realized loss associated with an impaired investment.

4.2.1 Example: If a pool member had a \$50 million bond issue that was placed in the pool after the date an investment is deemed impaired, then this new \$50 million would not be part of the member's average cash balance during the designated holding period for the purpose of calculating their share of the realized loss.

5.0 Pool Members Exiting Pool Prior To Realized Loss Distribution

5.1 Members who request a complete withdrawal of funds from the pool prior to a realized loss must first ensure that their request is consistent with their signed investment agreement, including prior notification requirements.

5.2 Retainage for Loss Coverage: The County will require the exiting pool member to retain sufficient funds in the pool to cover any future realized loss on an impaired investment. The County will calculate the pool member's pro rata share of an estimated 100 percent loss of the par value of the impaired investment using the holding period method set forth in section 4.0. This amount will be deducted from the requested withdrawal of funds and will be retained by the pool until such time that the pool

KING COUNTY INVESTMENT POOL POLICY

recovers the full par value of the investment or distributes a realized loss. If a realized loss is less than the amount being retained by the pool to cover losses, this difference will be reimbursed to the exiting pool member at the time the realized loss is allocated to pool members.

5.2.1 Example: A pool member requests the withdrawal of \$10 million on the anniversary date of their pool agreement and provides proper advance notice. The pool member has an average cash balance equal to 1 percent of the total pool assets during a defined holding period for an impaired investment. The par value on the impaired investment is \$50 million. The amount retained by the pool to cover any loss is \$500,000 (1 percent x \$50 million). Therefore, the net withdrawal payment is \$9.5 million (\$10 million - \$500,000 retained for loss coverage). Of the \$500,000 retained by the pool, all or a portion of this amount will be returned to the exiting pool member depending on whether the full par value is eventually repaid to the pool.

5.3 If the County is issued a new security (or securities) as part of a restructuring solution for an impaired investment, then the full retainage amount will be returned to the pool member upon the full maturity payment of the new security (or securities). Also, if a restructuring solution results in periodic cash flow payments or the partial repayment of the par value of an impaired investment, these payments will be distributed to pool members.

5.4 Pool members will continue to receive interest earnings, as set forth in their investment agreements, on the amount of their retainage for loss coverage provided that, if the impaired assets are separated from the performing assets into a separate impaired investment pool, then no interest earnings will be distributed from the impaired pool until the full principal due on the impaired investment has been recovered. Full or partial recovery of these impaired funds is dependent on the implementation of restructuring agreements involving each impaired investment.

Provided further that no administrative fees will be charged to those assets in the impaired investment pool and any cash recovery from the impaired investments in excess of the retainage for loss coverage will be returned to each participant's fund in the performing pool effective on the day these funds were settled, thereby lowering the total amount impaired.

6.0 Pool Members Removing Substantial Funds Prior To Realized Loss Distribution

6.1 Members who request withdrawals of their cash balances must make the request consistent with their signed investment agreement, including prior notification requirements.

6.2 **Retainage for Loss Coverage:** Prior to approving the request, the County will calculate the amount of funds that must be retained in the pool to cover the pool member's share of any future realized loss on an impaired investment. The retainage for loss coverage will be calculated and applied in the same manner as Section 5.0.

KING COUNTY INVESTMENT POOL POLICY

7.0 Accounting and Financial Reporting for Impaired Investments

7.1 The Governmental Accounting Standards Board (GASB) promulgates accounting guidance. GASB 31 Accounting and Financial Reporting for Certain Investments and for External Investment Pools, provides guidance for investment accounting. Additionally, GASB also provides guidance through questions and answers in its annual comprehensive implementation guides.

7.2 In accordance with GASB 31, the investments in the County investment pool are reported in the King County's year-end financial statements at fair value. That valuation takes into account any impaired investments.

7.3 If fair value is not determined by quoted market prices, the GASB Implementation Guideline suggests the security's value be estimated. This estimate calculation requires professional judgment and use of valuation techniques. In these cases, the County will obtain an estimate of the fair value from an investment bank of high reputation and solvency.

7.4 All investment income, including changes in the fair value of investments is recognized as revenue in the King County's statement of activities. Negative investment income is reported as negative revenue.

7.5 GASB 31 does not mandate the manner, frequency or method of the distribution of investment earnings. The County, as the pool sponsor, determines the distribution methodology.

7.5.1 Based on longstanding past practice, the county only distributes realized gains and losses to pool members. The County does not distribute unrealized gains or losses on its investments.

8 Period of Applicability

8.1 This policy reflects applicable statutes, GASB 31 and standard accounting practices, the terms of the agreements with pool members and the actual practices that have been followed in the past management of the pool and therefore applies to all withdrawals, exits, or other events that fall within its subject matter scope.

KING COUNTY INVESTMENT POOL POLICY

SCHEDULE VII

POLICY STATEMENT ON INTERLOCAL AGREEMENTS OF POOL MEMBERS

It is King County's policy that all members of the Pool will have signed the Pool Agreement. A copy of the current form of the Agreement is posted on the County's web site at the following link:

<http://www.kingcounty.gov/operations/Finance/Treasury/InvestmentPool.aspx>

KING COUNTY INVESTMENT POOL POLICY

FINANCE AND BUSINESS OPERATIONS DIVISION

KING COUNTY

STATEMENT OF INVESTMENT POLICY

SCHEDULE VIII

Pool-Plus – Long-Term Investment Option

Purpose

This policy is adopted by King County's Executive Finance Committee (EFC) to address the circumstances under which County agencies or districts can invest funds beyond the maximum maturity limit established for the King County Investment Pool (KCIP). There are circumstances where the investment horizon of the KCIP is not aligned with the long-term investment horizon of the agency or district. This policy provides an investment option that allows a participant in the KCIP to request the County to combine a portfolio of individual long-term securities in the same fund that is invested in the KCIP (RCW 36.29.022). The pooling of the long-term portfolio with the KCIP provides the ability to invest at durations longer than the KCIP, while maintaining access to the liquidity of the KCIP. The Pool-Plus program will allow qualifying funds to invest over longer durations recognizing there are: (1) potential risks such as increased price volatility and the possibility of selling securities before maturity to pay unexpected expenditures could result in a loss of principal; (2) benefits from reducing reinvestment risk which improves the predictability of future budget revenue; (3) and potential rewards such as increased earnings.

Goals

The policy is intended to serve the following goals:

- Provide an investment option for funds with investment horizons far beyond the maximum maturity limit of the pool.
- Minimize credit risk exposure that long-term investments outside the KCIP will face.
- Minimize the possibility of negative financial impacts on current pool participants.
- Ensure that a fund requesting to invest in long-term investments outside the pool understands, and accepts, the greater price volatility that is inherent in longer term investments.
- Minimize any operational burden that would distract the investment team from its primary mission of managing the investment pool.

Eligibility Criteria

1. Only County agencies or district funds for which the County serves as *ex officio* treasurer are eligible.
2. Funds that are short-term in nature will not be eligible. Some examples of short-term funds that would generally not be eligible include operating funds, general

KING COUNTY INVESTMENT POOL POLICY

funds, current expense funds, bond financed construction funds subject to rebate, etc.

3. Funds must have investment horizons that extend beyond 5 years, and the possibility of having to sell investments prior to maturity must be extremely unlikely. This ensures that the purpose is to minimize reinvestment risk and not to assume higher risk levels in the sole hope of capturing higher yields by assuming greater market risk.
4. To minimize the operational burden on the investment team, funds must have at least \$5 million available for investment outside of the reserve that will be maintained in the KCIP. However, when more than 75% of the available funds are designated for the KCIP, the combined duration becomes closer to the KCIP's, and this may result in the fund not being approved for the Pool-Plus program because the goal of investing for a longer time horizon than the KCIP's is not being satisfied, and the work load for the investment team is increased.
5. County agencies and districts wishing to participate in the Pool-Plus program must complete the appropriate application. (See Appendix 1 for districts and Appendix 2 for County agencies.)
6. To protect the soundness of the KCIP, the EFC must approve all applications to participate in the Pool-Plus program which validates that the requesting fund has a true business need to participate in the Pool-Plus program. This reduces the likelihood that a Pool-Plus participant can harm other KCIP participants by moving money out of the KCIP when the KCIP rate is low and then moving the funds back when it is high. An application from a fund that has previously terminated its participation in the Pool-Plus program, and then reapplies, can expect its request to receive additional scrutiny.

Eligible Securities

The KCIP will be used for the liquidity portion of the portfolio, while the following investment types will be used for the longer term investments:

- A. U.S Treasuries or securities with full faith and credit of the U.S. government backing them.
- B. Senior debt obligations issued by U.S. agencies, instrumentalities, or government-sponsored enterprises such as Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), and Federal Home Loan Mortgage Corporation (FHLMC). While these agencies have credit ratings equivalent to the U.S. government, they are not explicitly guaranteed by the U.S. government. Financial market participants view them as having an "implied guarantee" because these agencies were chartered by Congress.

The investment team will be responsible for selecting the mix of securities between U.S Treasury and agency securities. However, the fund's management and governing body may request that only U.S. Treasury securities be purchased.

The investment team will limit purchases to the above sectors because they have extremely low levels of credit risk and trade in liquid markets. The investment team will

KING COUNTY INVESTMENT POOL POLICY

also not purchase securities with prepayment risk like mortgage-backed or callable securities. Since longer term securities that have a higher exposure to market risk from changes in interest rates, compounding the risk exposure by adding credit and prepayment risk is not the best option for a passive, long-term strategy.

Investment Strategy

The investment strategy for a fund approved for the Pool-Plus program will consist of two parts: The KCIP and the longer term investments. The KCIP will hold any reserve that will be used for liquidity or as an extra cushion to reduce the probability that a longer term security would have to be sold before maturity.

Two investment options will be offered for the long-term investment program. Option 1 is a 10-year ladder strategy. A 10-year bond ladder will generally consist of 10 fixed-income securities of equal size invested with maturities from 1 to 10 years. The investment team will attempt to keep the average maturity of funds using Option 1 between 4 and 6 years.

Example: A pool participant has a reserve fund with \$20 million that will be used to replace infrastructure. They expect the expenditure will take place in 40 years. However, there is also a possibility that a natural disaster or unexpected event might cause them to have to spend funds before then. Their management and governing body decides to maintain a liquidity/contingency balance of \$10 million in the KCIP. This would leave \$10 million for the bond ladder. The example below shows how this ladder strategy might look.

Year	Amount Invested
1	\$1 million
2	\$1 million
3	\$1 million
4	\$1 million
5	\$1 million
6	\$1 million
7	\$1 million
8	\$1 million
9	\$1 million
10	\$1 million
Total	10 million

With \$10 million in the KCIP and \$10 million in the ladder the average duration of this fund would be about 3 years, which is approximately 3 times greater than the KCIP's usual duration.

Option 2 will be available for funds that have \$25 million or more and that believe Option 1 does not adequately meet its investment objectives. If the investment team concurs that Option 1 is not workable for the fund, they will work with fund to develop an investment plan that better meets the unique cash flow and other objectives of the fund.

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Whenever it is reasonable, the investment team will attempt to add to securities already held in its portfolios, instead of buying a new security. This will reduce the number of securities held, which will reduce safekeeping expenses. The investment team will also attempt to consolidate purchase requests from multiple entities into one trade. This will also help to reduce safekeeping and trading expenses.

Operational Features

- Adding additional monies to Option 1 and 2 after the initial investment:
 - When a security matures in the Option 1 or 2 programs new money can be added to the reinvestment of the proceeds.
 - On a quarterly basis new money can be added by emailing the request to investment.pool@kingcounty.gov. The request period is open the last 10 business days of any quarter. The investment team will compile the requests, and will place new investments usually within the first 5 business days of the new quarter (e.g., requests received in the last 10 business days of December will generally be placed in the first 5 business days of January).
 - Minimum quarterly addition is \$1 million for Option 1.
 - Minimum quarterly addition is \$5 million for Option 2.
 - Should the amount requested to be invested exceed line (C) from the Fund Details section of the application most recently approved by the EFC, a new application and EFC approval will need to be obtained.
- Communications
 - The investment team will contact authorized personnel before reinvesting the proceeds from maturing investments or when investing new money to discuss the new investment purchase.
 - If the investment team identifies an opportunity to improve or rebalance the participant's long-term portfolio, they will consult with authorized personnel before taking any action that requires a sale before maturity.
 - Pool-Plus participants should communicate any material change in their cash flow or financial condition that could impact their ability to continue participating in the Pool-Plus program as soon as possible.
- It is expected that securities purchased under Option 1 or 2 would normally be held to maturity, but if the investment team and the Pool-Plus participant agree that a sale would be beneficial, sales will be allowable. However, if a sale would generate a realized loss, the investment team would inform the Director of the size of the loss and why the sale is being requested. The Director shall then inform the EFC of such decision in advance of executing the transaction with the understanding the Director has the authority to inform the EFC after the transaction in circumstances that require an expedited decision.
- Coupon payments will automatically be invested into the KCIP.
- King County has the right to modify the investment options available to Pool-Plus program participants when it deems it prudent to do so.

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- There will be no additional fees to participate in the Pool-Plus program. The fees agreed to in the KCIP Agreement and the King County Cash Management Services Agreement Investment will apply to the invested balances in the funds that participate in the Pool-Plus program.
- All investment-related decisions and transactions will be made by those individuals designated by the Director.
- The Pool-Plus program is based on a long-term, passively managed strategy. Any attempt by a participant in the Pool-Plus program to shift dollars between the KCIP and Options 1 or 2 that appears to be harmful to the effective management of the County's investment operations will not be allowed. To protect other KCIP participants, the EFC has the power to terminate a fund's ability to participate in the Pool-Plus program with 90 days' notice to the agency or district. The agency or district may terminate this agreement with 45 days' notice.

Acceptance of Risk

Any fund that requests the ability to invest in long-term investments outside the KCIP will be required to attest that they can tolerate the price volatility associated with long duration securities. In the case of County funds, this acceptance of price risk must be approved by the fund's financial manager and by the department director. In the case of districts, an authorized person must sign the request and the district's governing board must submit a resolution attesting that they can tolerate and accept the risks associated with long-term investments.

As long as the securities are held to maturity, unrealized losses will diminish over time because the investor will receive the face amount (assuming no credit default) at maturity. However, unrealized losses may matter in certain types of funds. For instance, if a reserve fund needs to have a minimum market value and the fund falls below this level; the fund manager may have to transfer more funds to bring the fund back to its required balance. If other funds are not available to transfer in, this may cause the fund to be out of compliance with its legal commitment.

Any unrealized or realized gains/losses in a fund's investments in Option 1 or 2 of the Pool-Plus program will belong solely to that fund because those assets are the direct investments of the participant and are not assets of the KCIP. Realized and unrealized gains/losses in the KCIP will be governed by the agreements and policies that it operates under.

Being public entities, participants in Options 1 and 2 are also subject to increased reputational risk. This is the risk that government officials may lose stature if the market value of their investments falls significantly. Participants must understand that the overall length of the investments in Options 1 and 2 cause these options to have more market risk and less liquidity than the KCIP. Unrealized or realized losses could generate extra scrutiny by the media, constituents, auditors, etc., and this could have negative consequences for the officials involved.

Those entities considering Options 1 and 2 should also be aware that the County's uses accounting practices that are consistent with Governmental Accounting Standards Board (GASB) accounting standards. These means that the County amortizes/accretes premiums and discounts on a monthly basis and annually marks securities to their fair

KING COUNTY INVESTMENT POOL POLICY

market as required by GASB Statement No. 31. Those considering the Pool-Plus option should make sure their organization is comfortable with these accounting practices.

KING COUNTY INVESTMENT POOL POLICY



APPENDIX 1

DISTRICT APPLICATION POOL-PLUS OPTION PART 1

DISTRICT CONTACT INFORMATION

District name:		Date:
Contact name:		Contact title:
Phone:	Fax:	E-mail:
District address:		
City:		ZIP code:

FUND DETAILS

Fund name:	Fund number:
Fund type (general, capital, reserve, etc.):	
Balance in the fund as of the most recent month-end: \$	
(A) Amount of fund balance to be invested in Option 1 or 2 upon approval: \$	
(B) Over a 10-year horizon, what is the cumulative amount you expect to add to Option 1 or 2? \$	
(C) Total of lines (A) and (B): \$	

ADDITIONAL INFORMATION (CAN BE SUBMITTED ON EXTRA SHEET)

What business need do you have that makes Option 1 or 2 appropriate for your organization?

Which long-term option is the fund requesting? Option 1 (ladder) Option 2 (Custom)

Please attach your 10-year financial analysis that supports (B) above.

Are there any circumstances that might delay or reduce future revenue collections? If so, please describe.

Are there any circumstances that might accelerate or increase future expenditures? If so, please describe.

What impact would an unrealized loss in the range of 3 to 15 percent have on the fund?

DISTRICT AUTHORIZED SIGNATURE (REQUESTING POOL-PLUS OPTION)

Signature:	
Print Name:	
Title:	
Date:	

Important – Please Include the Following Attachment:

➤ **Copy of the governing body's resolution requesting the Pool-Plus investment option from King County.**

KING COUNTY EXECUTIVE FINANCE COMMITTEE REVIEW (COUNTY USE ONLY)

Part 1 signed & resolution received? Yes <input type="checkbox"/> No <input type="checkbox"/>	Part 3 signed & resolution received? Yes <input type="checkbox"/> No <input type="checkbox"/>
Pool-Plus Option Approved by EFC? Yes <input type="checkbox"/> No <input type="checkbox"/>	Date Approved/Denied:
Copy sent to district? Yes <input type="checkbox"/> No <input type="checkbox"/>	Option approved: <input type="checkbox"/> Option 1 (ladder) <input type="checkbox"/> Option 2 (Custom)

INSTRUCTIONS

1. District completes and signs Part 1 above, and emails it to: Investment.Pool@kingcounty.gov.
2. King County completes Part 2 and returns to the district.
3. The district completes Part 3 and returns the signed document along with the governing body's resolution. Once this step is completed, the request will be brought before the EFC for its consideration. If the County does not receive a completed Part 3, the County will assume the district has dropped their request.

KING COUNTY INVESTMENT POOL POLICY



APPENDIX 1 (CONTINUED) DISTRICT APPLICATION

ACKNOWLEDGEMENT AND ACCEPTANCE OF ALL RISKS

PART 2 (COMPLETED BY KING COUNTY)

DISTRICT INFORMATION

District name:	Fund Number:	Date:
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20-YEAR INTEREST RATE ANALYSIS FOR 5 AND 10 YEAR TREASURY NOTES

INTEREST RATE SHOCK ANALYSIS (RATES UP 100, 200, & 300 BASIS POINTS)

PART 3 (COMPLETED BY DISTRICT)

After relying on our own due diligence and reviewing the brief analysis prepared by King County above, the district requests EFC approval of our Pool-Plus Investment Option Application (select one): Yes No

The district requests that King County buy only securities that are issued by the U.S. Treasury or are backed by the full faith and credit of the United States be purchased for the bond ladder(select one): Yes No

DISTRICT AUTHORIZED SIGNATURE

Signature:

Print Name:

Title:

Date:

If "Yes" is Selected in Part 3, Please Include the Following Attachment:

- **Copy of the governing body's resolution acknowledging that the district is relying on its own due diligence and has reviewed the information provided by King County in Part 2 above and that it agrees to abide by the policies for the Pool-plus Option. The resolution must also state that the district accepts the market risk and the risk that the district could experience an actual loss or principal if it must sell an investment before maturity, and it must designate at least 2 people that are authorized to provide transaction instructions to the investment team..**

KING COUNTY INVESTMENT POOL POLICY



APPENDIX 2

KING COUNTY AGENCY APPLICATION POOL-PLUS OPTION PART 1

AGENCY CONTACT INFORMATION

Department & division name: :		Date:
Contact name:		Contact title:
Phone:	Fax:	E-mail:
District address:		
City:		ZIP code:

FUND DETAILS

Fund name:	Fund number:
Fund type (general, capital, reserve, etc.):	
Balance in the fund as of the most recent month-end: \$	

- | |
|--------------------------------------------------------------------------------------------------|
| (A) Amount of fund balance to be invested in Option 1 or 2 upon approval: \$ |
| (B) Over a 10-year horizon, what is the cumulative amount you expect to add to Option 1 or 2? \$ |
| (C) Total of lines (A) and (B): \$ |

ADDITIONAL INFORMATION (CAN BE SUBMITTED ON EXTRA SHEET)

What business need do you have that makes Option 1 or 2 appropriate for your organization

Which long-term option is the fund requesting? Option 1 (ladder) Option 2 (Custom)

Please attach your 10-year financial analysis that supports (B) above.

Are there any circumstances that might delay or reduce future revenue collections? If so, please describe.

Are there any circumstances that might accelerate or increase future expenditures? If so, please describe.

What impact would an unrealized loss in the range of 3 to 15 percent have on the fund?

FUND MANAGER - AUTHORIZED SIGNATURE (REQUESTING POOL-PLUS OPTION)	DEPARTMENT DIRECTOR - AUTHORIZED SIGNATURE (REQUESTING POOL PLUS OPTION)
Signature:	Signature:
Print Name:	Print Name:
Title:	Title:
Date:	Date:

KING COUNTY EXECUTIVE FINANCE COMMITTEE REVIEW (COUNTY USE ONLY)

Part 1 signed? Yes <input type="checkbox"/> No <input type="checkbox"/>	Part 3 signed? Yes <input type="checkbox"/> No <input type="checkbox"/>
Pool-Plus Option Approved by EFC? Yes <input type="checkbox"/> No <input type="checkbox"/>	Date Approved/Denied:
Copy sent to agency? Yes <input type="checkbox"/> No <input type="checkbox"/>	Option approved: <input type="checkbox"/> Option 1 (ladder) <input type="checkbox"/> Option 2 (Custom)

INSTRUCTIONS

1. Agency completes and signs Part 1 above, and emails it to: Investment.Pool@kingcounty.gov.
2. King County Treasury Section completes Part 2 and returns to the agency.
3. The agency completes Part 3 and returns the signed document signed by both the Fund Manager and Division Director document Director that shows that they acknowledge and accept the risks involved with the Pool-Plus option. Once this step is completed, the request will be brought before the EFC for its consideration. If the King County Treasury Section does not receive a completed Part 3, the County will assume the agency has dropped their request.

KING COUNTY INVESTMENT POOL POLICY



APPENDIX 2 (CONTINUED)

**KING COUNTY AGENCY APPLICATION
ACKNOWLEDGEMENT AND ACCEPTANCE OF ALL RISKS**

PART 2 (COMPLETED BY KING COUNTY TREASURY SECTION)

AGENCY INFORMATION

Agency name:	Fund Number:	Date:
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20-YEAR INTEREST RATE ANALYSIS FOR 5 AND 10 YEAR TREASURY NOTES

INTEREST RATE SHOCK ANALYSIS (RATES UP 100, 200, & 300 BASIS POINTS)

PART 3 (COMPLETED BY AGENCY)

The agency accepts the market risk and the risk that the agency could experience an actual loss or principal if it must sell an investment before maturity. After relying on our own due diligence and reviewing the brief analysis prepared by King County Treasury Section above, the agency requests EFC approval of our Pool-Plus Investment Option Application (select one): Yes No

The agency requests that King County buy only securities that are issued by the U.S. Treasury or are backed by the full faith and credit of the United States be purchased for the bond ladder(select one): Yes No

The Department's Director must also designate at least 2 people that are authorized to provide transaction instructions to the investment team.

FUND MANAGER - AUTHORIZED SIGNATURE
(REQUESTING POOL-PLUS OPTION)

DEPARTMENT DIRECTOR - AUTHORIZED SIGNATURE
(REQUESTING POOL PLUS OPTION)

Signature:

Signature:

Print Name:

Print Name:

Title:

Title:

Date:

Date:

KING COUNTY INVESTMENT POOL POLICY

GLOSSARY OF TERMS

ACCRUED INTEREST – Interest that has accumulated but has not yet been paid from the most recent interest payment date or issue date to a certain date.

AGENCY ISSUES – Securities issued by federal agencies, those chartered by the federal government or Government Sponsored Enterprises that are considered to be backed by the federal government. See also Government Sponsored Enterprises.

AMORTIZED COST – The original cost of the principal adjusted for the periodic reduction of any discount or premium from the purchase date until a specific date (also called “Book Value”).

ASSET-BACKED COMMERCIAL PAPER (ABCP) is a form of commercial paper that is collateralized by other financial assets. ABCPs are typically short-term investments and are typically issued by a bank or other financial institution

BANKERS ACCEPTANCE – Money market instrument created from transactions involving foreign trade. In its simplest and most traditional form, a bankers’ acceptance is merely a check, drawn on a bank by an importer or exporter of goods.

BASIS POINT – A unit of measurement equal to 1/100 of 1 percent. As an example, the difference between a security yielding 3.25% and one yielding 3.20% is five basis points.

BENCHMARK – An index or security used to compare the performance of a portfolio.

BOND – A long-term debt instrument of a government or corporation promising payment of the original investment plus interest by a specified future date.

BULLET – A colloquial term for a bond that cannot be redeemed, or called, prior to maturity.

CALLABLE BOND – A bond in which all or a portion of its outstanding principal may be redeemed prior to maturity by the issuer under specified conditions.

COLLATERALIZATION – Process by which a borrower pledges securities, property or other deposits for the purpose of securing the repayment of a loan and/or security.

COLLATERALIZED CERTIFICATE OF DEPOSIT – An instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is collateralized by the bank with securities.

COMMERCIAL PAPER – Money Market instrument representing an unsecured short-term promissory note of a corporation at a specified rate of return for a specified period of time.

COUPON – The stated interest rate on a debt security that an issuer promises to pay.

KING COUNTY INVESTMENT POOL POLICY

CUSTODIAN BANK – A specialized financial institution responsible for safeguarding a firm's or individual's financial assets and is not likely to engage in "traditional" commercial or consumer/retail banking.

CREDIT QUALITY – An indication of risk that an issuer of a security will fulfill its obligation, as rated by a rating agency.

CREDIT RATING – A standardized assessment, expressed in alphanumeric characters, of a company's creditworthiness.

CREDIT RISK – The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CUSIP – A unique identifier for a security developed by the Committee on Uniform Security Identification Procedures (CUSIP). The identifier is a nine-digit alphanumeric character. The first six characters identify the issuer, the following two identify the issue, and the final character is a check digit.

DERIVATIVES – Securities which derive their value from that of another security or an underlying index, currency or other measure. Floating rate notes (also "floaters") are not considered derivatives.

DISCOUNT INSTRUMENTS – Securities that are sold at a discount to face value.

DIVERSIFICATION – The practice or concept of investing in a range of securities by sector, maturity, asset class or credit quality in order to reduce and spread financial risk.

DOLLAR WEIGHTED AVERAGE MATURITY – The sum of the amount of each security investment multiplied by the number of days to maturity, divided by the total amount of security investments.

DURATION – Is a measure of the price volatility of a portfolio and reflects an estimate of the projected increase or decrease in the value of that portfolio based upon a decrease or increase in the interest rates. A duration of 1.0 means that for every one percent increase in interest rates, the market value of the Portfolio would decrease by 1.0 percent.

EFFECTIVE DURATION - A duration calculation for bonds that incorporates the impact of any embedded options in the bond. For Bonds with embedded options (callable, puttable, etc) effective duration provides a more accurate measure of a bond's price movement when interest change because it takes into account changes in the bond's cash flow that are related to the embedded options.

GOVERNMENT OBLIGATIONS – Securities issued by the U.S. Treasury and Federal Agencies. U.S. Treasuries are direct obligations of the Federal Government. Agencies are not direct obligations of the Federal Government, but involve Federal sponsorship or guarantees.

KING COUNTY INVESTMENT POOL POLICY

GOVERNMENT SPONSORED ENTERPRISES (GSE'S) – Private, shareholder-owned companies with a relationship with government agencies. These agencies generally are viewed to have an implied guarantee of the U.S. government. These include:

Federal National Mortgage Association (FNMA)
Federal Home Loan Bank (FHLB)
Federal Farm Credit Bank (FFCB)
Federal Home Loan Mortgage Corporation (FHLMC)

HIGHLY LIQUID – The most eminent type of security that is easily converted to cash because there are many interested buyers and sellers to trade large quantities at a reasonable price.

ILLIQUID – A security that is difficult to buy or sell or has a wide spread between the bid price and offer price in the secondary market. There are few buyers and sellers willing to trade large quantities at a reasonable price.

INTEREST RATE RISK – The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value. Also called “Market Risk”.

INVERSE FLOATERS – Floating rate notes which pay interest in inverse relationship to an underlying index.

LIQUID – A security that is easily bought and sold because of the willingness of interested buyers and sellers to trade large quantities at a reasonable price.

LONG-TERM – The term used to describe a security when the maturity is greater than one year.

MARKET VALUE – An estimate of the value of a security at which the principal would be sold from a willing seller to a willing buyer at the date of pricing.

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.

MEDIUM TERM NOTES – These are Corporate Notes and Bank Notes that are debt obligations of banks, corporations, and insurance companies. They are issued at a specific rate of return for a specific period of time.

MONEY MARKET MUTUAL FUND – A mutual fund with investments directed in short-term money market instruments only, which can be withdrawn daily without penalty.

NEGOTIABLE CERTIFICATE OF DEPOSIT – A Money Market instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is traded in secondary markets.

PAR – The stated maturity value, or face value, of a security.

KING COUNTY INVESTMENT POOL POLICY

PASS-THROUGH SECURITIES – A debt instrument that reflects an interest in a mortgage pool, consumer receivables pool and equipment lease-backed pool that serves as collateral for a bond.

POOL – In this context, the pooled monies of different government agencies administered by the Pool.

PORTFOLIO VALUE – The total book value amount of all the securities held in the Pool.

PRIMARY DEALER – A group of dealers and banks that can buy and sell securities directly with the Federal Reserve Bank of New York.

PRIVATE PLACEMENTS – Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors.

RANGE NOTES – Notes which pay interest only if the underlying index upon which it is benchmarked, falls within a certain range.

REPURCHASE AGREEMENT – A repurchase agreement consists of two simultaneous transactions. One is the purchase of securities by an investor (i.e., the County), the other is the commitment by the seller (i.e. a broker/dealer) to repurchase the securities at the same price, plus interest, at some mutually agreed future date.

REVERSE REPURCHASE AGREEMENT – The mirror image of Repurchase Agreements. In this instance the King County Pool is the seller of securities to an investor (i.e. brokers).

SAFEKEEPING – A custodian bank's action to store and protect an investor's securities by segregating and identifying the securities.

SECONDARY MARKET – The secondary market, also known as the aftermarket, is the financial market where previously issued securities and financial instruments are bought and sold.

SHORT-TERM – The term used to describe a security when the maturity is one year or less.

TOTAL RETURN – The sum of all investment income plus changes in the capital value of a portfolio for a given period.

WEIGHTED AVERAGE MATURITY – The remaining average maturity of all securities held in a portfolio. See Dollar Weighted Average Maturity.

WHEN-ISSUED SECURITIES – A security traded before it receives final trading authorization with the investor receiving the certificate/security only after the final approval is granted.

YIELD – The gain, expressed as a percentage, which an investor derives from a financial asset.

KING COUNTY INVESTMENT POOL POLICY

YIELD TO MATURITY – The percentage rate of return paid if the security is held to its maturity date. The calculation is based on the coupon rate, length of time to maturity, and market price. It assumes that coupon interest paid over the life of the security is reinvested at the same rate.