
WHATCOM COUNTY INVESTMENT POOL (WCIP)

OPERATING TERMS & CONDITIONS

Effective 6/9/16, Re-approved 1/16/19

Whatcom County Treasurer

Steven N. Oliver



The Whatcom County Investment County Pool (WCIP)

The Whatcom County Investment Pool (the WCIP) is an investment pool consisting of public funds offered by the Whatcom County Treasurer and authorized under RCW's 36.29.020, 36.29.022 and 36.29.024

The WCIP was established to provide county departments as well as eligible government entities within Whatcom County a mechanism whereby they may utilize the resources of the County Treasurer to maximize the potential of their surplus public funds, in a manner that optimizes safety, liquidity and return on such funds. The WCIP portfolio is a combination of high quality investments with varying maturities designed to control investment risk and maximize earnings. The WCIP seeks to provide current income by investing in fixed income securities that meet defined standards for credit quality and maturity. Please refer to the Whatcom County Investment Policy, available upon request, or on the Treasurer's website.

Participants may include, but are not limited to, districts (such as; school, fire, port, drainage, road improvement, emergency management, fire districts), cities, and other public entities located in Whatcom County.

The fund seeks to provide income by investing in high-quality, short and long term securities that are eligible for investment in the State of Washington. The WCIP is not designed for participants who wish daily withdrawals and contributions.

WCIP SNAPSHOT as of 12/31/17

The table below provides a summary comparison of the WCIP's investment types and sensitivity to interest rate risk. This current snapshot can be expected to vary over time.

| | |
|-------------------------------|--|
| Current Investments | <ul style="list-style-type: none">• LGIP• Bank Deposits• US Treasury Bonds• US Government Agency Obligations• Supranationals• Municipal Bonds |
| Effective Duration (in years) | 1.01 |
| Book Value of Portfolio | \$ 418,096,000 |
| Unrealized Gain/Loss | \$ (3,548,000) |

Participation

Participation in the investment pool should be considered a long-term commitment. Participants will not withdraw and deposit funds into the pool for speculative purposes as such actions may negatively impact other participants in the pool, hence, withdrawals from the pool are to be made only for planned operating and capital expenditures.

Fees and Expenses

Administrative Fee

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

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

At the end of the calendar year, the WCIP will prepare a final accounting for pool expenses. The WCIP does maintain a reserved rebate fund held on a rolling three year basis to cover unanticipated and one time capital expenditures. Reserved rebate funds held as of December 31, 2015 totaled \$32,983. The participants are rebated administrative fees that are in excess of operational requirements. The proportionate share of the rebate is based on the participant's average daily balance for the calendar year in which the rebate was posted.

Whatcom County Investment Pool Operating Expenses (in Basis Points)

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| <i>Total Operating Expenses</i> | <i>8.95</i> | <i>7.66</i> | <i>7.23</i> | <i>7.94</i> | <i>7.29</i> |

(1 basis point = 0.01%)

Portfolio Turnover

The WCIP does not pay a commission or fee when it buys or sells securities (or "turns over" its portfolio). However, debt securities often trade with a bid/ask spread. Consequently, a higher portfolio turnover rate may generate higher transaction costs that could affect the portfolio's performance.

Investment Objective

The WCIP will seek to effectively maximize the yield in a manner consistent with preserving principal. In priority order, the objectives are; safety, liquidity, and yield.

Principal Investment Strategies

The WCIP will seek to invest primarily in securities issued by the US government and its agencies and instrumentalities, some of which may not be backed by the full faith and credit of the US government. The WCIP is expected to have an effective average adjusted duration of no longer than 2 years under normal market conditions. The WCIP may only invest in eligible investments permitted by state law.

The WCIP manager will select investments taking into account the credit quality of the issuer, security-specific features, current and potential future valuation, and trading opportunities.

The WCIP manager will be able to improve on the investment return of all pool participants by monitoring the cash flow needs of the pool participants, and to its best ability, matching its investments with those needs.

Investments of the WCIP will conform to the WCIP Investment Policy, the most recent version of which is posted on the Whatcom County Treasurer's website and is available upon request.

For purposes of evaluating the performance of the WCIP, benchmark comparison indices will be established and will include the Washington State Local Government Investment Pool (LGIP), and a customized treasury index such as the Merrill-Lynch 0-3 US Treasury Index.

Principal Risks of Investing in the WCIP

Interest Rate/Market Risk

The WCIP invests in longer term securities and will react relatively slower to a rise or drop in interest rates compared to a shorter weighted average maturity fund such as the LGIP. In the event that interest rates rise rapidly, the WCIP may, in the short term, return a lower rate compared to the LGIP. Conversely, if interest rates drop quickly, the WCIP will be able to maintain a relatively higher rate of return than that of the LGIP. Over the course of a full interest rate cycle, the WCIP should outperform the LGIP due to its longer weighted average maturity.

Liquidity Risk

Liquidity risk is the risk that the WCIP can experience significant net pool participant withdrawals at a time when it cannot find willing buyers for its portfolio securities or can only sell its portfolio securities at a material loss.

Management Risk

Poor security selection or an ineffective investment strategy could cause the WCIP to underperform relevant to its benchmarks or other investment pools with a similar investment objective.

Issuer/Credit Risk

The WCIP is subject to the risk that debt issuers and other counterparties may not honor their obligations. Changes in an issuer's credit rating (e.g., a rating downgrade) or the market's perception of

an issuer's creditworthiness could also affect the value of the WCIP's investment in that issuer. The degree of credit risk depends on both the financial condition of the issuer and the terms of the obligation. The value of an individual security or particular type of security can be more volatile than, and can perform differently from, the market as a whole. Also, a decline in the credit quality of an issuer can cause the price of a security to decrease.

Call or Extension Risk

During periods of falling interest rates, an issuer of a callable bond held by the WCIP may "call" or repay the security before its stated maturity, and the WCIP may have to reinvest the proceeds at lower interest rates, resulting in a decline in the WCIP's income. Also, during periods of rising interest rates an issuer of a callable bond held by the WCIP may elect not to call the bond, and the WCIP may have to value the bond on a yield to maturity basis. The ability of an issuer of a debt security to repay principal prior to a security's maturity can cause greater price volatility if interest rates change.

An investment in the WCIP is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the WCIP seeks to preserve the value of investments, pool participants could lose money by investing in the WCIP. The WCIP is subject to the principal risks noted above, any of which may adversely affect the portfolio's return, value, and ability to meet its objectives. There is no assurance that the WCIP will achieve its investment objective.

Performance

The following information is intended to address the risks of investing in the WCIP. The information illustrates changes in the performance of the WCIP from year to year. Returns are based on past results and are not an indication of future performance. Updated performance information will be provided to participants on a quarterly basis. Monthly performance information can be obtained by calling the Treasurer's Office at 360-778-5160 or emailing treasurer@whatcomcounty.us.

Calendar Year-by-Year Returns: Net Yield - WCIP

| 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 3.85% | 2.31% | 1.32% | 0.90% | 0.54% | 0.38% | 0.48% | 0.64% | 0.83% | 1.06% |

Average Annual Accrued Net Yield: 3 years 0.85% 5 years 0.68% 10 years 1.23%

Transactions: Investing and Withdrawing Cash from the WCIP

Whatcom County Investment Pool Participants Send Investment Letter to Treasurer

Investment Purchases are transacted in the following time frames, unless the Investment letter specifies a later date:

- Investment letter received by 12:00 pm: Within one working day.
- Investment letter received after 12:00 pm: Within two working days.
- End of month requests: Must be received by 4:30 pm two days prior.

Investment withdrawals are transacted in the following time frames, unless the Investment letter specifies a later date:

Investment letter received by 3:00 pm: Within one working day.

End of month requests: Must be received by 4:30 pm two days prior.

Transaction Limitation

The Pool Participant understands and agrees that its investment of funds in the WCIP is considered a long term investment. Participants will not withdraw and deposit funds into the pool for speculative purposes as such actions may negatively impact other participants in the pool, hence, withdrawals from the pool are to be made only for planned operating and capital expenditures

The County Treasurer reserves the right at his/her sole discretion to set a minimum and/or maximum transaction amount from the WCIP and to limit the number of transactions, whether contribution, withdrawal, or transfer permitted in a day or any given period of time. Currently, the minimum size contribution for the WCIP is \$250 per cost center. There is no minimum withdrawal size.

The County Treasurer also reserves the right at his/her sole discretion to reject any proposed contribution, and in particular to reject any proposed contribution made by a pool participant engaged in behavior deemed by the County Treasurer to be abusive of the WCIP.

Large Withdrawals

To allow the investment officer to manage cash flows, the following are guidelines for withdrawing large sums of money:

1. WCIP participants will notify the Treasurer's Office 7 business days in advance if a disbursement up to \$500,000 is to be made.
2. WCIP participants will notify the Treasurer's Office 30 business days in advance if a disbursement up to \$5 million is to be made.
3. WCIP participants will notify the Treasurer's Office 90 business days in advance if a disbursement exceeding \$5 million is to be made.

Participants in the pool are required to provide cash flow projections. In order to operate the pool efficiently, the participants should also disclose to the Treasurer's Office, in a timely manner, any plans for significant withdrawals or deposits on balances maintained in the WCIP. Pool participants should also disclose, in a timely manner, anytime there is a material change to their historical pattern of cash flow requirements. This allows the Treasurer to enhance returns while maintaining sufficient liquidity for all pool participants.

Notice of contribution to/from the WCIP can be given by faxing or emailing the Investment Department. Sample Investment and withdrawal forms are available upon request.

Closing a WCIP Account

For accounts of \$500,000 or less, District must notify the Investment Department in writing of intent to close account at least 30 days in advance.

For accounts over \$500,000, District must notify the Investment Department in writing of intent to close the WCIP account. At that time, the County Treasurer will approve a reasonable distribution schedule for the balance of funds in the account, as proposed by the District and the Investment Department. Regardless of the size of the balance in the account, all monies will be distributed to the District within one year.

Regardless of account size, if the WCIP holds an impaired investment at time of account closing, the County will require the exiting pool member to retain sufficient funds in the pool to cover its pro-rata share of any future realized loss on the impaired investment. This amount will remain in the pool until such time that the pool recovers the full par value of the investment or distributes a realized loss.

Investing Cash Outside the WCIP

Eligible Pool Participants may invest certain specified monies outside of the WCIP if the following criteria are met:

- District must clearly demonstrate to County Treasurer's satisfaction that adequate cash flow planning at District level exists and that money will not be needed for at least two years.
- External investment must represent new money received by the district, such as bond proceeds.
- Investments must comply with all applicable statutes and policies.
- Minimum length of maturity is two years.
- Minimum size of external investment is \$1,000,000.
- District is solely responsible for risk of principal loss should there be a need to sell security prior to maturity.
- District is solely responsible for monitoring coupon payment, maturity dates and reinvestment of cash.

Valuing Shares

The WCIP will be operated using a constant net asset value calculation based on the amortized cost of all securities held such that the securities will be valued at their acquisition cost plus accrued income, amortized daily.

The WCIP will mark-to-market the portfolio on a monthly basis. The unrealized loss/gain will be calculated by subtracting the market value of the securities less the amortized book value.

Earnings and Distribution

Accrued Earnings

Earnings are allocated based on the weighted average daily balance a participant's fund maintains in the Pool as determined by Whatcom County. Earnings are calculated on a 365 day basis. Earnings and fees will be calculated by the 5th business day of the following month; however, the distribution will be effective as of the first of the following month. The monthly interest rate used for Pool distributions will be calculated using earnings of the Pool on an accrual basis as well as gains or losses from the sale of investment instruments. Earnings will be posted less the administrative fee.

Monthly Statements and Reporting

Statements: Every calendar month, each pool participant will be sent a monthly statement which includes the pool participant's beginning balance, contributions, withdrawals, transfers, fees, earnings and ending balance for the preceding calendar month.

Reporting: At least quarterly, a report will be posted to the Treasurer's website summarizing the current position of the WCIP. This report will be prepared in a manner which will allow the participants in the pool to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include at a minimum:

- Holdings by type and issuer
- Expected aging of investments
- Performance of portfolio and its appropriate benchmark(s)
- Duration and weighted average maturity of the portfolio
- Portfolio activity
- Book and market value, unrealized gain/loss.

Management

The County Treasurer is the manager of the WCIP and has overall responsibility for the general management and administration of the fund.

The County Treasurer may utilize outside investment resources from time to time to review and/or develop new investment strategies.

Custodian

A third party custodian that will hold securities and act as an agent for the Fund, will be appointed in accordance with the terms of the Whatcom County Investment Policy. The current custodian is Wells Fargo.

Amendments

The **Operating Terms and Conditions** as well as the **Whatcom County Investment Policy** may be amended from time to time at a public meeting of the Administrative Finance Committee. Pool participants will receive a notice if any changes have been made and the most current version of the documents will be available on the Whatcom County Treasurer’s website, and upon request.

WCIP – Contact Information

Email: treasurer@whatcomcounty.us Phone: 360-778-5160

Mail:
Whatcom County Treasurer
Investment Department
311 Grand Avenue
Suite 104
Bellingham, WA 98225
Fax: 360-778-5161

District Name _____

I _____ on behalf of _____ have read and understand the Terms and Conditions for the Whatcom County Investment Pool. I understand and acknowledge that these Terms and Conditions represent a memorandum of understanding between _____ and the Whatcom County Treasurer.

Signed by: _____

District Name: _____

Signature: _____

Date: _____

Please email a copy of the signed page back to the Investment Department.