

Statement of Investment Policy Amendment

to add the Washington State Local Government Investment Pool

Commission Request

Port's Investment Portfolio: Opportunity for Diversification

Recommendation for action:

- Add the Washington State Local Government Investment Pool (LGIP) to the list of authorized investments in the Port's investment Policy
- Staff recommends adding the LGIP as an option for investing a portion of cash for short-term liquidity needs
- Many other large local entities include the LGIP in short-term liquidity and investment strategies

Objectives: increase portfolio diversification and lower risks.
Details about Port's Investment Pool previously provided to Commission

Investments: Background & Policy

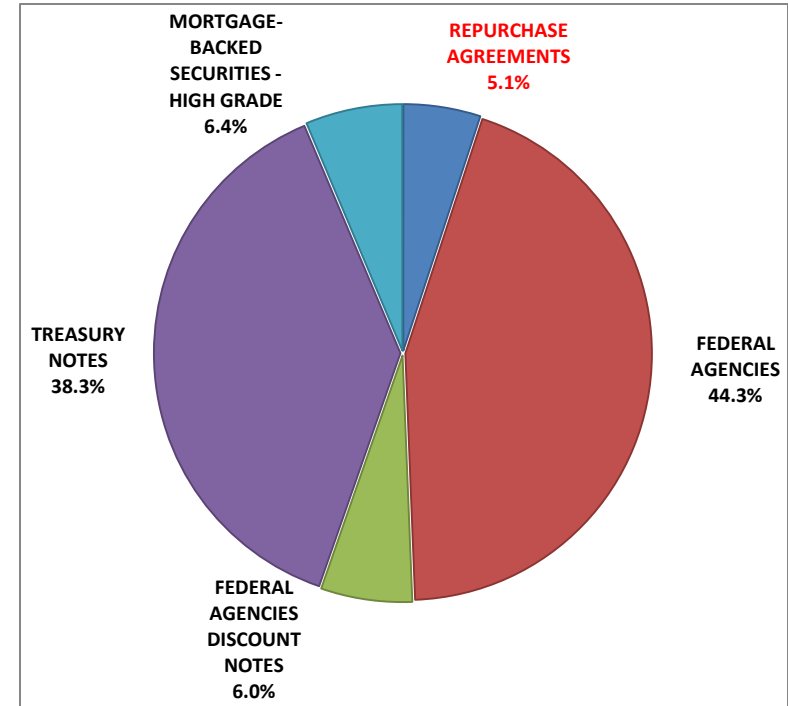
- Authorized investments are made in accordance with and subject to restrictions of the Revised Code of Washington (RCW) 36.29.020.
- Commission resolution first approved Port investment policy, adopted as of June 11, 2002.
- The investment policy is reviewed periodically, and amended as appropriate to address changes in law, market conditions or follow best practices.
 - Last amendment: June 5, 2012.
- Staff recommends adding the State's Local Government Investment Pool (LGIP).

State laws limits the types of investments the Port can invest in.
The Port's Investment Policy is included in the documents set.

Liquidity & Investments – Port’s Investment Portfolio

12/31/2017

- Liquidity management (short & long term)
 - Short term:
 - Have sufficient cash available to pay all Port disbursement, timely
 - Investments primarily in Repurchase Agreements (REPOs) (REPO definition in Appendix)
 - Long term use of and reliance on REPOs. Due to changing market conditions affecting REPO availability, need to diversify into other short-term investment options.
 - **Adding the LGIP supports investments for short term liquidity**
 - Long term:
 - Invest excess funds for longer term liquidity needs



Short term investments primarily in REPOs. Adding LGIP supports short term liquidity

What is the LGIP?

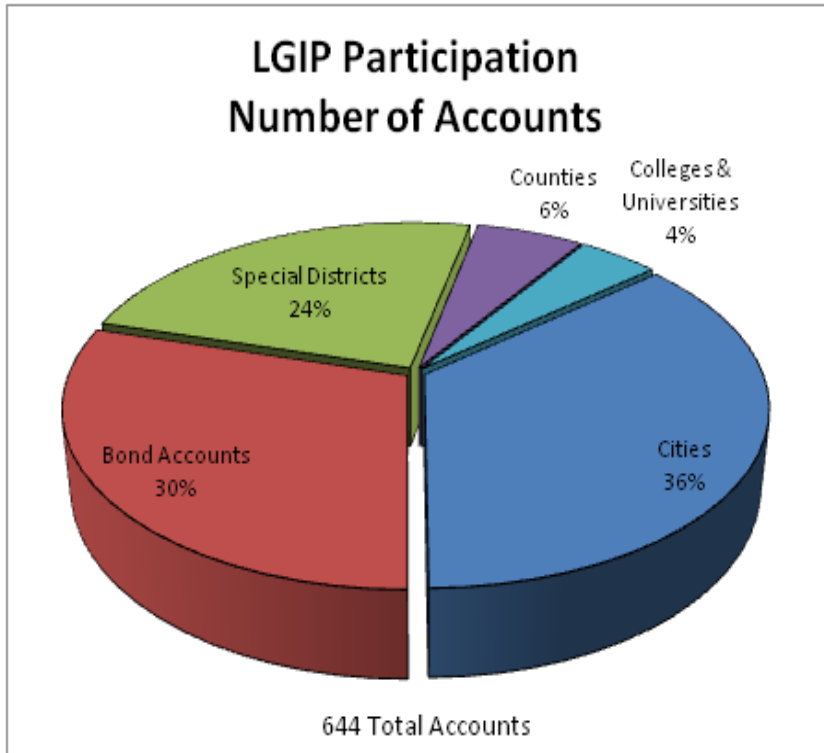


STATE OF WASHINGTON
OFFICE OF THE STATE TREASURER

LOCAL GOVERNMENT INVESTMENT POOL
AN INVESTMENT POOL OF THE STATE OF WASHINGTON

- Local Government Investment Pool
- Voluntary investment vehicle operated by State Treasurer's office since 1986
- Serves as an investment vehicle for eligible governmental entities to invest cash surpluses
- Operates as an investment pool, like a money market fund
- It is a safe, liquid, diversified and competitive investment option

LGIP Participants

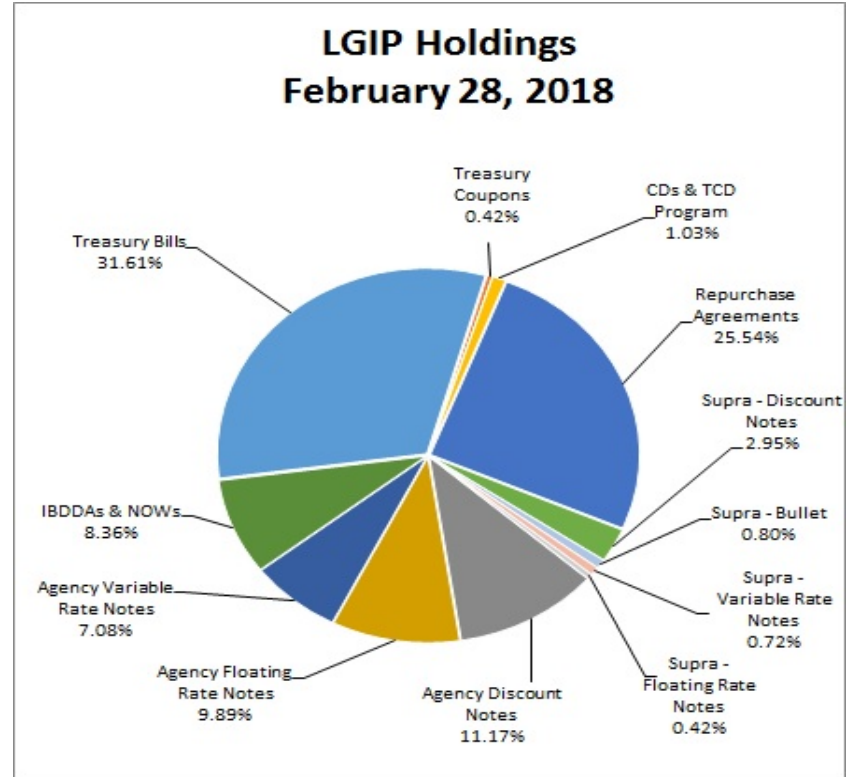


- @ 644 local governmental accounts:-
- all 39 counties, (including King County)
- larger cities (including Seattle, Auburn, Lacey, Redmond),
- colleges & universities,
- special districts (including Seattle Housing Authorities, Sound & Pierce Transits, Clark & Snohomish Counties Public Utilities)
- Option to invest all or a portion of surplus cash.
- Smaller entities who may not have the resources to manage their own investments might invest all surplus cash.
- Many large entities include the LGIP in short-term liquidity and investment strategies.
 - Port plans to invest a portion of cash for short-term liquidity needs

Both the Port of Tacoma & the Northwest Seaport Alliance currently invest a portion of their cash in the LGIP. NWSA Commission approved the LGIP in January 2016.

LGIP Characteristics

- LGIP's diversified pool of investments are primarily money market instruments that are:
 - **Short term:**
 - Average maturity 60 days
 - Maximum maturity 397 days
 - **high-quality,**
 - **highly liquid.**
- The LGIP has an investment policy; its objectives are similar to those of the Port of Seattle's:
 - **safety** of principal, maintaining
 - **liquidity** to meet cash flows, and
 - **yield**, providing a competitive interest rate



The same State laws (RCW) 36.29.020 limiting authorized investments apply to the LGIP

LGIP Characteristics cont'd

- While the LGIP is considered a safe, liquid, and competitive investment option,
 - Investment in the LGIP is not a bank deposit, and is **not insured or guaranteed** by the FDIC, the State of Washington, or any other governmental agency.

The LGIP supports Port's investment policy objectives: safety, liquidity and yield

Summary of LGIP benefits

➤ **Benefits of the LGIP for the Port:**

- Daily access and availability,
 - even when REPO or other options are not
- Can accommodate the **size**, and precise **timing** requirements of the Port
- Competitive rates: LGIP recent daily yield ranges:
 - December 2017 - 1.16% to 1.38% (vs. Port REPO 1.03% to 1.46%)
 - January 2018 - 1.36% to 1.44% (vs. Port REPO 1.25% to 1.46%)
- Gain access to State Treasurer's resources (portfolio management & credit analysis teams)
- High quality, diversified option
- Risk mitigation, available if/when other options are not
- Low cost: Estimated annual fees – less than 0.01%
- Loss record – no losses

Steps for adding the LGIP

- Request Commission approval, with two resolutions:
 1. Adopt a Port of Seattle resolution to restate the Port of Seattle Investment Policy, adding the Washington State Local Government Investment Pool (LGIP), under Section 9, Authorized Investments.
 2. Adopt - Office of the Washington State Treasurer (OST) LGIP Resolution, authorizing the investment of The Port of Seattle funds in the Washington State Local Government Investment Pool (LGIP) maintained by the OST.

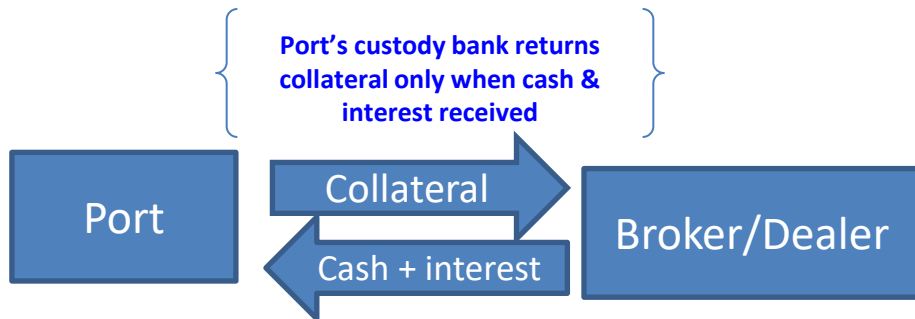
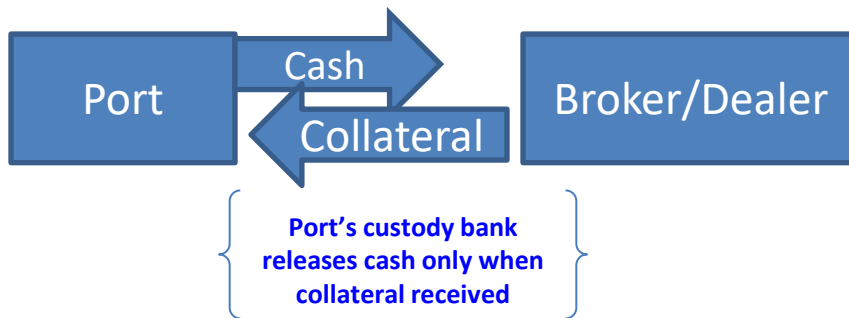
Appendix:

What is a Repurchase Agreement (REPO)?

At agreement opening:

- Port “lends” cash to a Broker/Dealer (B/D) at agreed upon interest rate and term*¹
- B/D sends collateral*² equal to 102% to 105% of cash amount

*¹ Typically 1 day, 60 days maximum; & *² in the form of high quality U.S. government securities ; both as per Port’s Investment Policy.



At maturity:

- The Port receives cash + interest from B/D and returns the collateral

REPO is a collateralized short-term investment contract

Repurchase Agreements (REPO)

Benefits of REPOs to the Port:

- Daily access
- Size (can accommodate the size range (from \$5 to 100 million or more) for the Port's daily & monthly cyclical needs)
- Timing (executed in seconds at or before investment markets opening)
- Secure, high quality collateral (collateral must comply with statute & Port's investment policy, and be 102%/105% of the REPO amount)
- Competitive rate

Changing Market Conditions impact availability of REPOs

- Less Broker/Dealer participation
- Less collateral available:
 - Federal government and agencies have reduced debt issues for several years
- Increasing occasions when there is no REPO availability to the Port
- Other alternatives do not have the size, or available at precise times

Port's long term use/reliance needs to be modified due to market changes

End of presentation