

MEMO

To: Aaron BeMiller - City of Olympia
From: Whitney Maher – Government Portfolio Advisors
Date: February 2, 2024
Re: Investment Policy Update 2024

It is a best practice to periodically review and update the City's Investment Policy. Washington State Statute was updated in 2016 allowing for the addition of Corporate Notes and Supranationals. Washington local governments like the City of Olympia have added both investment types into their portfolios with success as this is providing increased diversification in asset types.

This year, the updates to policy are being presented to align to statute and Washington State Investment Board Guidelines, and also include updated best practice recommendations from the Government Investment Officers Association (GIOA) and Washington Public Treasurer's Association (WPTA). The City of Olympia intends to submit this policy to the WPTA for certification. The WPTA guidelines have recently been updated and their changes have been incorporated into the policy. The City's policy was last updated and adopted by the City Council in October of 2019. The following updates are being presented for adoption in 2024:

- ✓ Policy Statement – moved from cover page to Section 3 of Policy
- ✓ Scope – update language, include WPTA recommended language regarding bond covenants, updated
- ✓ Safety – expanded language
- ✓ Standards of Care – Updated section and added WPTA language regarding training. Added Finance Committee.
- ✓ Ethics and Conflicts of Interest – Add GIOA/WPTA recommended language regarding gifts
- ✓ Third-Party Safekeeping – Include updated language
- ✓ External Controls – added per GIOA best practice recommendations, utilize WPTA sample language
- ✓ Broker/Dealers – included more detailed language around requirements of broker/dealers
- ✓ Investment Advisors – included more detailed language around requirements of Advisors
- ✓ Competitive Transactions – updated language
- ✓ Authorized and Suitable Investments – Include “Additional Specifications” for reference
- ✓ Combine US Agency Primary and Secondary Obligations into the single category of “US Agency Obligations” – this will provide consistency with state statute
- ✓ Supranationals – include Supranationals as allowable in statute (10% max, 5% per issuer, AA-)
- ✓ Municipal Bonds –Update language to follow statute (minimum ratings would move from AA- to A as allowable) and allow for GO Bonds outside of Washington. Increase maximum % holdings to 30%,
- ✓ Add Corporate Notes as allowable investment per Washington statute and Washington State Investment Board guidelines. This involves moving Commercial Paper max % holdings from 15% to a *combined* 25% max holdings of commercial and corporate notes.
- ✓ Update the Commercial Paper description to follow Washington State Investment Board language more closely
- ✓ Investment Parameters – Updated diversification table to reflect prior mentioned changes
- ✓ Investment Maturity – Remove Tier 3 (no longer separately managed funds) and update Maturity Constraints Table to include Duration of Corporate Note Portfolio

- ✓ Strategic Philosophy – updated to align more closely with GIOA Performance Standards – Updated per WPTA sample policy recommendation, provide more specific detail on benchmarks, etc
- ✓ Compliance Report – Added WPTA sample policy language regarding downgrades. Added language regarding fluctuating balances
- ✓ Accounting Method – Added per GIOA best practice recommendations

Updated Diversification Table - include all updates recommended (add supranationals, add corporates, combine US Agency Primary/Secondary, add maximum maturity column to table for reference, add muni bonds outside of WA – GO only, etc)

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P, Moody's, or Equivalent NRSRO	Maximum Maturity
US Treasury Obligations	100%	None	N/A	10 years
US Agency Obligations	100%	35%	N/A	10 years
Supranational Agency Notes	10%	5%	AA- / Aa3	10 years
Municipal Bonds (GO Outside WA)	30%	5%	A- / A3 Short Term**	10 years
City of Olympia Debt Obligations	15%	None	N/A	N/A
Corporate Notes	25%	3%* for AA- 2%* for A-, A, A+	A- / A3	5.5 years
Commercial Paper		3%	A1 / P1 Long Term A- / A3	270 days
Bank Time Deposits/Savings	20%	10%	Deposits in PDPC approved banks	N/A
Certificates of Deposit	25%	10%	Deposits in PDPC approved banks	5 years
State LGIP	100%	None	N/A	N/A

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

**Short Term Ratings: Moody's – P1/MIG1/VMIG1, S&P – A-1/SP-1, Fitch – F1

Note: Individual country limit of non-U.S./non-Canadian exposure is 2% of total portfolio

Update Maturity Table - include Duration of Corporate Note Portfolio

Maturity Constraints	Minimum % of Total Portfolio
Under 30 days	10%
Under 1 year	25%
Under 5 years	90%
Under 10 years	100%
Maturity Constraints	Maximum of Total Portfolio in Years
Weighted Average Maturity	2 years
Duration of Corporate Note Portfolio	3 years
Security Structure Constraint	Maximum % of Total Portfolio
Callable Agency Securities	25%