

OVERVIEW

Administration

The pool was created by the Washington State Legislature in 1986 to provide a mechanism whereby eligible governmental entities, at their option, invest temporary cash surpluses and take advantage of the volume and expertise of the state's investment program to earn a competitive rate of return while maintaining the security and liquidity of the funds they manage.

The pool is managed and operated solely by the Office of the State Treasurer. In 1995, the Local Government Investment Pool Advisory Committee was created by the State Treasurer to advise the treasurer on the operation of the pool.

Eligible investments for the LGIP portfolio are defined by state statute. Further, investment activity for the LGIP is guided by an investment policy which is approved by the State Treasurer and follows the standard of the prudent investor. The portfolio is invested in a manner generally consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, i.e., money market funds, as it currently stands.

Participants are offered 100% liquidity on a daily basis, provided notification is made within specified times. The expenses of operating the pool are covered through an administrative fee of 3.5 basis points charged to participants based on their average daily balance in the pool. Fees in excess of the expenses incurred for pool operation are rebated to participants.

LGIP Performance

Because the LGIP portfolio is invested in a manner generally consistent with a 2a-7 money market fund, and the administrative fees charged are low, i.e., 3.5 basis points, the net return of the LGIP closely follows the targeted federal funds rate. Accordingly, the net return on the LGIP during Fiscal Year 2012 ranged from 0.11 – 0.17 percent, reflecting a targeted federal funds rate that ranged from 0.00 – 0.25 percent during the fiscal year. The general management strategy in effect for much of the fiscal year was to maintain a slightly longer than neutral weighted average maturity in an attempt to lag the decline in fed funds as long as possible, while still ensuring adequate liquidity to LGIP participants.

Monthly statements are produced and distributed to participants, along with an enclosure containing various statistical information, e.g., historical yields and portfolio holdings by security type. For internal monitoring purposes, monthly reports are prepared which summarize the pool's activity and performance during the previous month.

The performance benchmark for the LGIP is the average net return of Government Only/Institutional Only Funds as reported in the Money Market Insight, iMoneyNet, Inc., Westborough MA. This group of Rule 2a-7 money market funds, which have similar investment parameters as the LGIP, provides an excellent benchmark for monitoring the pool's performance. Both the net and gross returns of the benchmark are monitored and compared to the net and gross returns of the pool. The net return provides an appropriate measure for what pool participants would receive if their funds were invested in the average benchmark fund. The gross return is also used internally by the State Treasurer to monitor the performance of the portfolio manager.

Investment Risk Profile

The Local Government Investment Pool is considered extremely low risk. As the pool invests in a portfolio of securities in a manner generally consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, as it is currently stands, the portfolio holdings are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The pool's portfolio is made up of high-quality, highly liquid securities, and its relatively short average maturity reduces the pool's price sensitivity to market interest rate fluctuations. The pool also has a strong degree of asset diversification to minimize risk and maintain adequate rates of return.

The investment activity of the pool is guided by an investment policy, which sets forth the parameters within which the portfolio manager may operate. The policy, which was approved by the State Treasurer and certified by the Association of Public Treasurers, is reviewed annually and updated as necessary. Compliance with the policy is monitored by the investment accounting division of the Office of the State Treasurer, which is separate and distinct from the investment division.

While the pool is managed diligently by professional and dedicated personnel to protect against losses from market and credit changes, the pool is not insured or guaranteed by any government. Therefore, the maintenance of principal is not fully assured.