

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Washington State Treasurer's Office provides the Management's Discussion and Analysis of the Local Government Investment Pool's (LGIP) Comprehensive Annual Financial Report (CAFR) for readers of the financial statements. This overview and analysis of the LGIP's financial activity is for the fiscal year ended June 30, 2016. Please read this analysis in conjunction with the letter of transmittal and the financial statements that follow.

Financial Highlights

- At fiscal year end, the LGIP reported a net position in the amount of \$12.8 billion.
- The LGIP's net position increased by \$1,813.7 million over the previous year.
- The LGIP earned \$32.9 million, net of expenses, for pool participants. This was an increase of \$21.3 million from the previous fiscal year.
- Administrative fees were less than one basis point for the tenth consecutive year.
- The LGIP's average annualized monthly yield was 26 basis points greater than that of its benchmark.

Overview of the Financial Statements

The LGIP manages a portfolio of securities that meet the maturity, quality, diversification and liquidity requirements set forth by the Governmental Accounting Standards Board (GASB) for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The funds are limited to high quality obligations with regulated maximum and average maturities to minimize both market and credit risk. Investments are

reported on a trade date basis in accordance with generally accepted accounting principles (GAAP).

This report consists of the Statement of Net Position, Statement of Changes in Net Position, Notes to the Financial Statements, and the Schedule of Investments. This CAFR also contains supplementary and statistical information to aid the reader in further understanding the financial position of the LGIP and the results of its operation for the fiscal year. The following is a description of the basic financial statements:

- **Statement of Net Position** - The Statement of Net Position presents all of the LGIP's assets and liabilities, with the difference between the two reported as net position. It also provides information on the types of investments held by the LGIP.
- **Statement of Changes in Net Position** - The Statement of Changes in Net Position presents information on how the net position changed during the fiscal year. Additions consist of the contributions from participants and investment income. Deductions consist of distributions to participants and administrative expenses.
- **Notes to the Financial Statements** - The Notes to the Financial Statements serve to describe the LGIP as a reporting entity and to further clarify its financial activity as reported in the financial statements.

Financial Analysis

To gain an understanding of the financial position of the LGIP, the reader should examine the financial statements as a whole, rather than in isolation from one another. This will provide a more comprehensive picture of the activity.

Net Position

The LGIP experienced an increase in net position of \$1,813.7 million in 2016. Total assets were higher while liabilities were lower compared to last fiscal year. The LGIP's net position total is a function of several parameters, some of which are independent of the LGIP's performance.

The resulting change in net position can best be explained simply by changes in deposits and withdrawals of the participants in the fund. Since the LGIP is a 100 percent voluntary investment option for eligible governments, participants may use the LGIP at their discretion. The percentage of total funds that individual participants have available for investment in the LGIP changes over time and can vary from near zero to 100 percent.

A summary of the LGIP's net position is presented below:

	2016	2015	Variance
Pooled Cash and Investments	\$ 12,931,280,160	\$ 11,444,280,429	\$ 1,486,999,731
Receivables	2,503,446	709,278	1,794,168
Total Assets	12,933,783,606	11,444,989,707	1,488,793,899
Liabilities	174,978,930	499,894,864	(324,915,934)
Net Position	\$ 12,758,804,676	\$ 10,945,094,843	\$ 1,813,709,833

Change in Net Position

Net Investment Income (i.e., Total Investment Income plus Miscellaneous income less Administrative Expenses) increased 182.6 percent compared to the previous fiscal year. This rise was primarily due to an increase of 19 basis points in the LGIP's portfolio yield from the previous fiscal year.

Contributions from participants and distributions to participants increased by 22.8 and 17.0 percent, respectively, in comparison to the prior fiscal year. These increases are the result of increased deposit and withdrawal transactional activity for state government funds available for investment in the LGIP.

A summary of the changes in the LGIP's net position is presented below:

	2016	2015	Variance
Contributions from Participants	\$ 43,302,522,970	\$ 35,255,884,315	\$ 8,046,638,655
Distributions to Participants	41,521,751,691	35,479,698,455	6,042,053,236
Net Investment Income	32,938,554	11,657,277	21,281,277
Change in Net Position	\$ 1,813,709,833	\$ (212,156,863)	\$ 2,025,866,696

Average Annualized Monthly Yield

The average annualized monthly yield represents the annualized percent return of LGIP investments based on the average invested balance for the month. The average annualized monthly yields have shown a slight variation over the last five years. Those minor changes can be explained by the constant average level of the targeted Federal Funds rate during that time period. The targeted Federal Funds rate, which is the interest rate that banks charge each other for the use of funds, is set by the Federal Open Market Committee in an attempt to balance the competing forces of inflation and economic growth. Due to the short-term nature of the portfolio, and the types of investments utilized, LGIP yields will closely follow the targeted Federal Funds rate.

The most informative measure of the LGIP's performance is not the change in the yield of the portfolio over time, but rather a comparison of the LGIP yield to the yield of its benchmark, iMoneyNet Government Only / Institutional Only Money Market Funds. This benchmark is comprised of privately managed money market funds similar in portfolio composition and investment guidelines to the LGIP. The LGIP net yield during the fiscal year was 26 basis points higher than that of the benchmark. The LGIP continues to be a sound investment option for eligible governments, obtaining a competitive yield while preserving principal and liquidity.

The following table shows an average of the annualized monthly portfolio yields for each of the last five fiscal years.

	Average Annualized Monthly Yields				
	2012	2013	2014	2015	2016
LGIP	0.14%	0.17%	0.11%	0.12%	0.31%
iMoneyNet	0.01%	0.01%	0.01%	0.01%	0.05%
Targeted Federal Funds	0% - 0.25%	0% - 0.25%	0% - 0.25%	0% - 0.25%	0% - 0.50%