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## OVERVIEW

### Administration

The LGIP 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 LGIP is managed and operated solely by the Office of the State Treasurer (OST). In 1995, the Local Government Investment Pool Advisory Committee was created by the State Treasurer to provide advice on the pool's operation.

The reports on investment activities are prepared by OST staff. The basis of presentation for data reported in the investment section is a time-weighted rate of return methodology.

Eligible investments for the LGIP portfolio are defined by state statute. Investment activity is guided by an investment policy, approved by the State Treasurer, and follows the standard of the prudent investor. The portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB for external investment pools who wish to measure all of its investments at amortized cost.

Participants are offered 100% liquidity on a daily basis, provided notification is made within specified times. Net earnings are allocated to each LGIP account on a daily basis and credited to the account at month end. On a daily basis, the total earnings, less the administrative fee, are allocated to the participants based on their pro rata share of the total deposits in the LGIP on that day. The administrative fee is based on an estimate of the annual administrative expenses. Estimates are reviewed periodically and the fee is adjusted as necessary.

### LGIP Performance

The LGIP's net return closely follows the targeted federal funds rate. Accordingly, the monthly net return ranged from 0.15 – 0.49 percent during the fiscal year, reflecting a targeted federal funds rate that ranged from 0.00 – 0.50 percent throughout the period. The general management strategy in effect for much of the fiscal year was to maintain a slightly longer than neutral weighted average maturity.

Monthly statements are produced and distributed to participants, along with an enclosure containing various statistical information, such as 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 a group of Government Only / Institutional Only Funds provided by iMoneyNet. This group of money market funds, which have similar investment parameters, 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 used internally by the State Treasurer to monitor the performance of the portfolio managers.

## Investment Risk Profile

The LGIP is considered extremely low risk. 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. High-quality, highly liquid securities, with relatively short average maturities reduce the pool's price sensitivity to market interest rate fluctuations. The LGIP also has a strong degree of asset diversification to minimize risk and maintain adequate rates of return.

The investment activity is guided by an investment policy, which sets forth the parameters within which the portfolio managers may operate. The policy, approved by the State Treasurer, is reviewed annually and updated as necessary. Compliance with the policy is monitored by the investment accounting staff within OST's operations division, 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.

## Investment Results

The following schedule of investment results presents the annualized gross rate of return for each major category of investments and for the portfolio as a whole versus the benchmark indices.

Investment Type	Gross Rates of Return <sup>[1]</sup>		
	1 Year	3 Year	5 Year
U.S. Agency Securities <sup>[2]</sup>	0.24%	0.13%	0.14%
U.S. Treasury Securities <sup>[2]</sup>	0.47%	0.33%	0.27%
Repurchase Agreements	0.28%	0.19%	0.16%
Floating / Variable Rate Notes	0.38%	0.26%	0.27%
Bank Deposits	0.35%	0.24%	0.23%
<b>Total Portfolio</b>	<b>0.32%</b>	<b>0.19%</b>	<b>0.19%</b>
Investment Benchmark iMoneyNet	0.26%	0.15%	0.15%

<sup>[1]</sup> Returns are calculated based on a time-weighted methodology gross of all fees and expenses

<sup>[2]</sup> Excludes Floating / Variable Rate Notes