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# SNOHOMISH COUNTY INVESTMENT POOL (SCIP)

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## OPERATING TERMS & CONDITIONS

January 2020



Snohomish County Treasurer

Brian Sullivan

Investment Officer

Arif Kanji

## The Snohomish Investment County Pool (SCIP)

The Snohomish County Treasurer is authorized to offer investment pooling opportunities to Districts located in the County. This is authorized by RCW 36.29.020, 36.29.022 and 36.29.024

The SCIP was established to provide county departments as well as eligible government entities within Snohomish County a mechanism whereby they may utilize the resources of the County Treasurer to maximize the potential of their surplus public funds, in a manner that optimizes safety, liquidity and the return on such funds. The Snohomish County Investment Pool (SCIP) portfolio seeks to provide current income by investing in a combination of high quality investments with varying maturities designed to control investment risk and maximize earnings. The securities in the pool are longer term; hence the portfolio has an average maturity of more than 90 days.

Participants may include, but are not limited to districts, (such as the following: school, fire, port, drainage, road improvement, emergency management, fire districts) cities and other public entities who desire to participate.

The fund seeks to provide income by investing in high-quality, short and long term securities that are eligible for investment in the State of Washington. The SCIP is not designed for participants who wish daily withdrawals and contributions.

### FUND SNAPSHOT

The table below provides a summary comparison of the fund's investment types and sensitivity to interest rates risk. This current snapshot can be expected to vary over time.

Current Investments (12/31/2019)	<ul style="list-style-type: none"> <li>• Bank Deposits</li> <li>• Local Government Investment Pool</li> <li>• US Treasury Notes</li> <li>• US Government Agency Obligations</li> <li>• WA State and local Municipal Securities</li> </ul>
Effective Duration	1.48 Years
NAV (Net Asset Value)	.9934
Book Value of Investments	\$471,885,155
Market Value of Investments	\$468,767,848
Unrealized gain/(loss)	\$(3,117,307)
Unrealized loss/Gain as % of portfolio	.66%

## Participation

Participation in the investment pool should be considered a long-term commitment. Participants will not withdraw and deposit funds into the pool for speculative purposes as such actions may negatively impact other participants in the pool, hence, withdrawals from the pool are to be made only for planned operating and capital expenditures

## Fees and Expenses

### Administrative Fee

The Snohomish County Treasurer's office charges pool participants a fee representing administration and recovery costs associated with the operation of the pool. In accordance with RCW 36.29.024, this fee is intended to reflect the Snohomish County's actual direct expense and out-of-pocket cost of administering the Pool.

The average periodic investment fee charged is on an annualized basis, and will be based on the daily principal balance maintained in the pool by the participants. The rate may fluctuate due to the actual average principal balances being maintained in the pool differing from projected balances. The fee will be paid monthly. In the event that there are no earnings, the administrative fee will be deducted from principal. Because most of the expenses in the SCIP are fixed costs, the fee (expressed as a percentage of fund assets) will be affected by: (1) The amount of operating expenses; and (2) the total assets of the SCIP.

## Snohomish County Investment Pool (SCIP) Operating Expenses (In Basis Points)

Year	Total Operating Expenses		Rebate
	Basis Points	Percent	
2014	5.1	0.051%	No Rebate Issued
2015	3.82	0.038%	No Rebate Issued
2016	3.70	0.037%	No Rebate Issued
2017	4.0	0.040%	No Rebate Issued
2018	3.25	0.0325%	No Rebate Issued

2019			No Rebate Issued
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(1 basis point = 0.01%)

### Rebate

At the end of the Fiscal year, the Snohomish County Investment Pool will prepare a final accounting for pool expenses. The participants will be rebated administrative fees that are in excess of operational requirements. The SCIP may maintain a reserve rebate fund to cover unanticipated and one time capital expenditures. The proportionate share of the rebate is based on the participant's average daily balance for the fiscal year in which the rebate was posted.

### Portfolio Turnover

The Portfolio does not pay a commission or fee when it buys or sells securities (or "turns over its portfolio). However, debt securities often trade with a bid/ask spread. Consequently, a higher portfolio turnover rate may generate higher transaction costs that could affect the Portfolios performance.

### Investment Objective

The primary objectives of the SCIP in priority order are;

- (1) Safety – Preservation of the principal in the portfolio
- (2) Maintain Liquidity
- (3) Maximize the yield

### Principal Investment Strategies

The SCIP will seek to invest primarily in high-quality short and long term securities. Fifteen percent of the portfolio will mature in a year or less. The SCIP will strive to have a duration range of between 1.5 years to 2.5 years. The target duration will be 2 years.

Typically, a high percent of the portfolio will be invested in US Government Agency Obligations and US Treasury Notes. The SCIP will only invest in eligible investments permitted by state law. The SCIP will not be registered with the SEC. Investments of the SCIP will conform to the Snohomish County Investment Policy. The most recent Investment Policy will be available upon request or can be found on the Treasurers home page at <https://www.snohomishcountywa.gov/5342/>

The SCIP manager will select investments taking into account the credit quality of the issuer, security specific features, current and potential valuation, and trading opportunities

The SCIP manager will be able to improve on the investment return of all pool participants by monitoring the cash flow needs of the pool participants, and to its best ability, matching its investments to those needs

For purposes of evaluating the performance of the SCIP, benchmark indices will be established and will include the Washington State Local Government Investment Pool (LGIP), and a benchmark that closely resembles the characteristics of the portfolio.

## Principal Risks of Investing in the SCIP

### *Interest Rate Risk*

The SCIP invests in longer term securities and will react slower to a rise or drop in interest rates. In the event that interest rates rise rapidly, the SCIP may in the short term return a lower rate compared to the Local Government Investment Pool (LGIP); conversely, if interest rates drop quickly, the SCIP will be able to return a higher rate of return than that of the Local Government Investment Pool (LGIP). Over the course of a full interest rate cycle, the SCIP should outperform the LGIP due to its longer term weighted maturity.

### *Liquidity Risk*

Liquidity risk is the risk that the Fund will experience significant net withdrawals of Fund shares at a time when it cannot find willing buyers for its portfolio securities or can only sell its portfolio securities at a material loss.

### *Management Risk*

Poor security selection or an ineffective investment strategy could cause the SCIP to underperform relevant benchmarks or other funds with a similar investment objective.

### *Issuer Risk*

The SCIP is subject to the risk that debt issuers and other counterparties may not honor their obligations. Changes in an issuer's credit rating (e.g., a rating downgrade) or the market's perception of an issuer's creditworthiness could also affect the value of the Fund's investment in that issuer. The degree of credit risk depends on both the financial condition of the issuer and the terms of the obligation. Also, a decline in the credit quality of an issuer can cause the price of a security to decrease.

### *Call or extension Risk*

During periods of falling interest rates, an issuer of a callable bond held by the SCIP may "call" or repay the security before its stated maturity, hence, the SCIP may have to reinvest proceeds at a lower interest rate, resulting in a decline in the SCIP's income. Also, during periods of rising interest rates an issuer of a callable bond may elect not to call a bond, and the SCIP may have to value the bond on a yield to maturity basis. The ability of the issuer of a debt security to repay the principal prior to a security's maturity can cause greater price volatility if the interest rate changes.

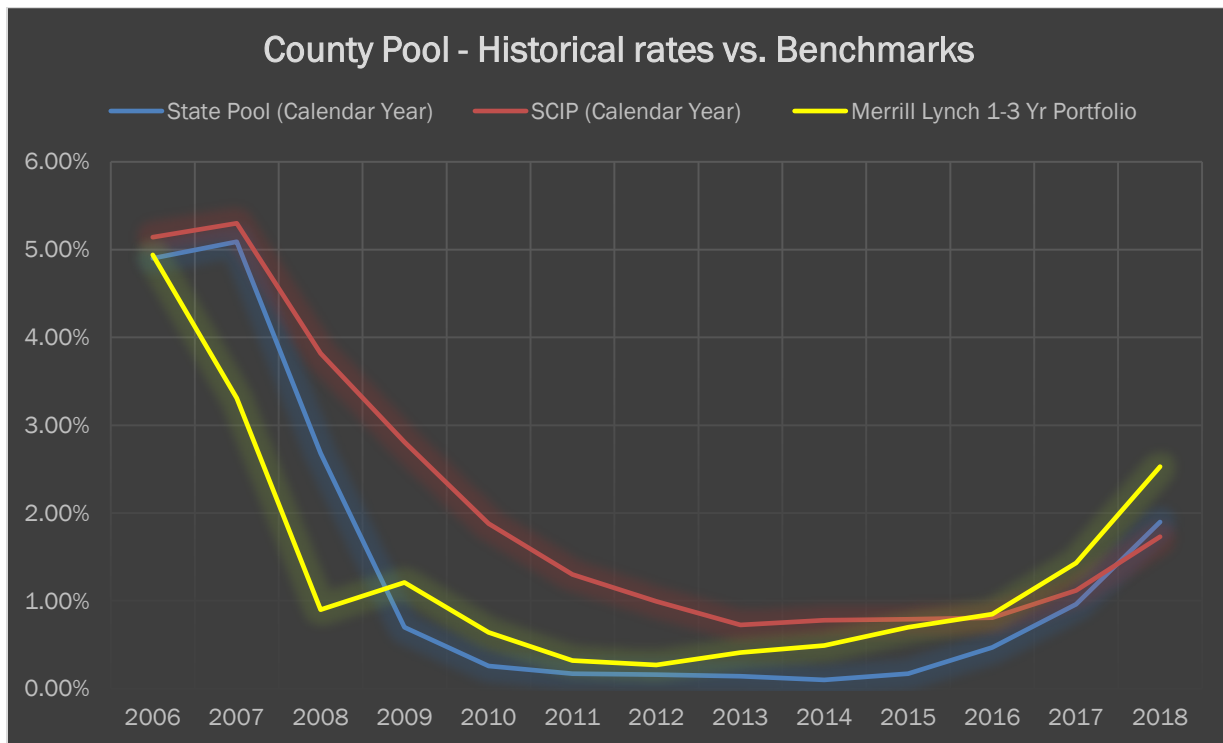
An investment in the SCIP is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Pool seeks to preserve the value of investments, pool participants could lose money by investing in the SCIP. There is no assurance that the SCIP will achieve its investment objective.

**Performance**

The following information is intended to address the risks of investing in the SCIP. The information illustrates changes in the performance of the SCIP from year to year. Returns are based on past results and are not an indication of future performance. Updated performance information will be provided to participants on a quarterly basis. Monthly performance information can be obtained by calling the Treasurer’s Office at 425-388-3630 or emailing [strinvestments@snoco.org](mailto:strinvestments@snoco.org).

Calendar Year-by-Year Returns: Yield – SCIP

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
5.14%	5.30%	3.82%	2.81%	1.88%	1.30%	1.00%	.73%	.78%	.79%	.81%	1.12%
2018	2019										
1.73%											



## Transactions: SCIP

### General Information

The minimum size (contributions or withdrawals) for the SCIP will be ten thousand dollars. The County Treasurer may, in its sole discretion, allow for transactions for less than the minimum amount

### Valuing Shares

The SCIP will be operated using a constant net asset value (NAV). The SCIP will mark-to-market the portfolio on a monthly basis. The unrealized loss/gain will be calculated by subtracting the market value of the securities less the amortized book value.

### Transaction Limitation

The County Treasurers Office reserves the right at its sole discretion to set a minimum and/or maximum transaction amount from the SCIP and to limit the number of transactions, whether contribution, withdrawal, or transfer permitted in a day or any given period of time.

The County Treasurers Office also reserves the right at its sole discretion to reject any proposed contribution, and in particular to reject any proposed contribution made by a pool participant engaged in behavior deemed by the County Treasurer to be abusive of the SCIP.

A pool participant may transfer funds from one SCIP account to another SCIP account. The transfers will be subject to the same time and contribution limits.

## Contributions

### Deposits

The District shall determine and provide a minimum of a weeks' notice to Snohomish County of the specific amounts of funds it intends to invest in the Pool and the time horizon that the funds will stay in the Pool. For bond funds and large deposits, the County Treasurer may request, at the time of deposit, that the District provide a drawdown timeline.

### Withdrawals

The District understands and agrees that its investment of funds in the SCIP is considered a long term investment. Participants will not withdraw and deposit funds into the pool for speculative purposes as such actions may negatively impact other participants in the pool, hence, withdrawals from the pool are to be made only for planned operating and capital expenditures

Districts wanting to withdraw money from the Pool will provide a minimum of a weeks' notice to Snohomish County of the specific amounts of funds it intends to withdraw from the Pool and the date that the funds are needed.

### Large Withdrawals

To allow the investment officer to manage cash flows, the following are guidelines for withdrawing large sums of money

1. SCIP participants will notify the Treasurer's Office 7 business days in advance if a disbursement up to one million is to be made.
2. SCIP participants will notify the Treasurer's Office 30 business days in advance if a disbursement up to five million is to be made.
3. SCIP participants will notify the Treasurer's Office 90 business days in advance if a disbursement exceeding \$5 million is to be made.

Participants in the pool are required to provide cash flow projections. In order to operate the pool efficiently, the participants should also disclose to the Treasurer's Office any plans for significant withdrawals or deposits on balances maintained in the SCIP. This allows the Treasurer to enhance returns while maintaining sufficient liquidity for all pool participants.

Notice of contribution to/from the SCIP can be given by calling the Snohomish County Investment Pool (425-388-3630).

### Earnings and Distribution

#### Accrued Earnings

Earnings are allocated based on the weighted average daily balance a participant's fund maintains in the Pool as determined by Snohomish County. Earnings are calculated on a 365 day basis. Earnings and fees will be calculated by the 5th business day of the following month; however, the distribution will be effective as of the first of the month. The monthly interest rate used for Pool distributions will be calculated using earnings of the Pool on an accrual basis as well as gains or losses from the sale of investment instruments. Earnings will be posted less the administrative fee.

#### Cash Distribution

Cash collected from coupon payments, sale/ maturing of securities will be distributed to participants by the 20<sup>th</sup> day of each month. The distribution of cash will be based on the balance of cash received in the prior month. It will be responsibility of the participant to inform the County if they want the distribution of cash re-invested.



## Monthly Statements and Reporting

Statements: Every calendar month, each pool participant will be sent a monthly statement which includes the pool participant's beginning balance, contributions, withdrawals, transfers, fees, earnings and ending balance for the preceding calendar month.

Reporting: At least quarterly, a report will be submitted to the Participants for their review, summarizing the current position of the SCIP. This report will be prepared in a manner which will allow the participants in the pool to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include at a minimum:

- Executive Summary of the Portfolio prepared by an outside advisor
- Asset allocation of types of securities
- Performance of portfolio and its appropriate benchmark(s)
- Duration and Weighted Average Maturity of the portfolio
- Interest Rate shock Analysis and Net Asset Value (NAV)

## Management

The County Treasurer is the manager of the SCIP and has overall responsibility for the general management and administration of the fund.

The County may utilize outside investment resources from time to time to review and /or develop new investment strategies. ***Snohomish County Treasurer's Office has retained the services of FTN Financial Main Street Advisors, an outside firm to evaluate, provide compliance oversight and issue a quarterly report analysis of the Snohomish County Investment Pool (SCIP).***

## Custodian

A third party custodian that will hold securities and act as an agent for the Fund, will be appointed in accordance with the terms of the Snohomish County Investment Policy. The current custodian is Wells Fargo Bank.

## Amendments

The **Operating Terms and Conditions** as well as the **Snohomish County Investment Policy** may be amended from time to time. Pool participants will receive a copy of the **Operating Terms and Conditions** as well as the **Investment Policy** on an annual basis.

**SCIP – Contact Information**

Email: [stinventments@snoco.org](mailto:stinventments@snoco.org) Phone: 425-388-3630

Mail:  
Snohomish County Treasurer  
Investments Department  
3000 Rockefeller Ave  
M/S 501  
Everett, WA 98201  
Fax: 425-388-3089

District Name \_\_\_\_\_

I \_\_\_\_\_ on behalf of \_\_\_\_\_ have read and understand the Terms and Conditions for the Snohomish County Investment Pool. I understand and acknowledge that these Terms and Conditions represent a memorandum of understanding between \_\_\_\_\_ and the Snohomish County Treasurer.

Signed by: \_\_\_\_\_

District Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Please email a copy of the signed page back to the investment department