



Island County Investment Program Review

Provided by FHN Financial Main Street Advisors ("FHN Main Street")
November 2020

Executive Summary: FHN Main Street believes the Island County's investment program is well managed, meeting its objectives of safeguarding principal, providing liquidity, and attaining a market rate of investment income in regard to cash flows and risk constraints. We offer some suggestions and analysis to enhance various aspects of the County's investment program.

Safety: The Island County Treasurer's Investment Pool ("Pool") is comprised of highly rated securities, with the majority of its holdings in the U.S. Government Agencies, the State's Local Government Investment Pool ("LGIP"), and U.S. Treasuries. The Pool's current and historical allocation of securities provides an extremely high probability of safety of principal for the Pool.

Liquidity: The Pool's maturity schedule is designed to provide operational liquidity for the County. The principal cash outflow items are short-term in nature, such as payroll, accounts payable, debt service, and retirement contributions. The Pool's current and historical maturity allocation provides an exceptionally high probability of meeting expected liquidity needs.

Income: The Pool is managed to attain a market rate of investment income in consideration of the primary objectives of safety and liquidity. Risk preferences (safety) and liquidity needs differ among Washington municipalities. In relation to the above mentioned factors, the Pool has generated a market rate of return, but may be enhanced with recommendations discussed in this investment program review.

Specific Areas of Review

Compliance with the Revised Code of Washington (RCW) and the Island County's Investment Policy

| Item | Compliant | Notes |
|---|-----------|---|
| Delegation of Investment Authority | Yes | The Revised Code of Washington (RCW) directs the investment authority to the Treasurer. The Treasurer fulfills this responsibility in a prudent manner and has appointed an Investment Officer to manage the day-to-day operations of the investment program. |
| Investment Procedures | Yes | The Treasurer has procedures that are followed. |
| Ethics and Conflict of Interest | Yes | The Treasurer and staff reported no ethics violations or conflicts of interest. |
| Authorized Financial Dealers and Institutions | No | The Treasurer maintains a list of qualified broker/dealers and financial institutions; however, an annual review has not been done. |
| Authorized and Suitable Investments | Yes | All of the current investment holdings conform to the guidelines in State law and the Policy. |
| Collateralization | Yes | All deposits are collateralized at the appropriate levels. |
| Safekeeping and Custody | Yes | The County utilizes Wells Fargo as custodian. All security transactions are done on a delivery-versus-payment methodology. |
| Diversification | Yes | Investments are well-diversified in regard to types and issuers. |
| Maximum Maturities | Yes | No security is beyond its respective maximum maturity. The weighted average modified duration of the Pool is below the 3 year limit. Also, the Pool has greater than the 20% limit maturing within one year. |
| Internal Controls | Yes | The Treasurer and staff maintain the appropriate separation of duties to provide proper internal controls. |
| Performance Standards/Market Yield Benchmark | Yes | The Pool is compared to benchmarks to verify a market rate of investment income is being achieved. |
| Reporting | Yes | A quarterly report is presented to the County Finance Committee, which includes relevant information about the investment program. |
| Reconciliation | Yes | The Treasurer's staff performs a detailed reconciliation of the investments on a monthly basis. |
| Investment Policy Adoption | Yes | The Investment Policy is submitted annually to the County Finance Committee. |

Summary of Recommendations

- **Staffing:** Continue providing investment staff ongoing training, including GIOA's Certified Government Investment Professional online program.
- **Internal Controls:** No recommendation, we feel the investment internal controls observed are sufficient.
- **Cash Flow Modeling:** Develop a rolling 12 month daily cash flow model and a monthly model for an additional four years.
- **Investment Strategies/Asset Allocation:** Increase the weighted average maturity (WAM)/duration of the Pool by investing more in the 2 year to 4 year tenors. Decrease the allocation to callable securities.
- **Investment Program Reporting:** Enhance the Monthly/Quarterly Investment Report by including additional graphical and other historical information.
- **Benchmarking:** Create a custom book return benchmark to more accurately measure on of the Investment Policy's primary objectives of "attaining a market rate of return".
- **Financial Market and Analytic Systems:** Procure a Bloomberg Analytics System.
- **Investment Accounting:** County uses SymPro, no recommendation.
- **Broker/Dealers:** Consider adding a primary dealer to improve security offerings. Perform the annual review of broker/dealers mentioned the Investment Policy on a regular basis.
- **Custodial Fees:** No recommendation, we feel the fees paid to the County's custodian for the investment program are extremely competitive.
- **Banking Fees and Compensating Balance Credit Rate:** No recommendation, we believe the fees paid to the County's depository bank extremely competitive, as well as the compensating balance credit rate.
- **Investment Policy:** Specific recommendations are discussed later in this review.
- **Investment Pool Policies and Procedures/Internal Operations Manual:** Well written, no recommendation.
- **Business Continuity:** No recommendation, we feel the County has sufficient off-site technical accessibility.
- **Utilizing an Investment Advisor:** Consider using an external investment advisor to enhance analysis, returns, and reporting.