

**POLICY NUMBER:** 2.05.500**EFFECTIVE DATE:** 9/21/23**TITLE:** Commercial Paper and Corporate Notes Investment Policy for the State Treasurer, Local Governments, and Higher Education Institutions**SUPERSEDES:** 6/18/20**BOARD ADOPTION:** 9/21/23**REVIEWED:**

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**PURPOSE**

Revised Code of Washington (RCW) [43.84.080](#), RCW [39.59.040](#), and RCW [28B.10.928](#) authorize the State Treasurer, local governments in the state of Washington, and Washington institutions of higher education to invest in commercial paper and corporate notes purchased on the secondary markets provided they adhere to the investment policies and procedures adopted by the Washington State Investment Board (WSIB).

In accordance with those statutes, this is the WSIB policy that the State Treasurer, local governments, and institutions of higher education must adhere to in order to invest in commercial paper and corporate notes should they make the decision to do so.

**POLICY**

This policy refers to four portfolios: (1) the commercial paper portfolio; (2) the corporate notes portfolio; (3) the credit portfolio, a subset of the total portfolio that contains the commercial paper and corporate notes portfolios combined; and (4) the total portfolio, which includes all money market and fixed income securities.

For the purpose of this policy, major rating agencies are Moody's Investor Services, Standard & Poor's, and Fitch IBCA.

Investors without the expertise to make the investment decisions addressed in this policy should obtain independent expert financial advice.

**Commercial Paper Portfolio Guidelines**

The policy guidelines with respect to investment in commercial paper are as follows:

1. Commercial paper must be rated with the highest short-term credit rating category of any two of the three major rating agencies at the time of purchase. If the commercial paper is rated by more than two major rating agencies, it must have the highest rating from all of them.
2. Commercial paper holdings may not have maturities exceeding 270 days.
3. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term senior unsecured credit rating at the time of purchase in one of the three highest rating categories of the major rating agencies.
4. The maximum percentage of commercial paper that may be purchased from any single issuer is 3 percent of the market value of the total portfolio.
5. Commercial paper must be purchased in the secondary market and not directly from the issuers.

**Corporate Notes Portfolio Guidelines**

The policy guidelines with respect to investment in corporate notes are as follows:

1. Corporate notes are defined as debt securities issued by corporations.
2. Corporate notes must be rated at least the lowest tier of the single-A rating or better by all of the major rating agencies that rate the note at the time of purchase for inclusion in the corporate notes portfolio.
3. Corporate notes must meet the following maturity and duration limits:
  - a. The maturity of the corporate notes shall be 5.5 years or less at the time of purchase.
  - b. The maximum duration of the corporate notes portfolio shall not exceed 3 years.
4. No corporate fixed-income issuer may exceed 3 percent of the total portfolio's market value.
5. The maximum percentage of corporate notes that may be purchased from any single issuer rated AA or better by all major rating agencies that rate the note is 3 percent of the market value of the total portfolio.
6. The maximum percentage of corporate notes that may be purchased from any single issuer rated in the single-A category by all the major rating agencies that rate the security is 2 percent of the market value of the total portfolio.
7. Corporate notes must be purchased on the secondary market and not directly from the issuers.
8. Securities rated in the single-A category with a negative outlook may not be purchased. Portfolio holdings of corporate notes downgraded to below single A and portfolio holdings of securities rated single A with their outlooks changed to negative may continue to be held. No additional purchases are permitted.

#### **Credit Portfolio Guidelines**

The commercial paper and corporate notes portfolios together are known as the credit portfolio. The policy guidelines with respect to the credit portfolio are as follows:

1. The credit portfolio shall not exceed 25 percent by market value of all assets of the total portfolio.
2. The credit portfolio must be diversified by sector and industry.
3. Portfolio managers must routinely monitor the ratings and credit quality of the issuers of the commercial paper and corporate notes that they are purchasing. Appropriate personnel should be notified of any credit rating downgrades of issuers of any commercial paper and corporate notes in their portfolios.
4. Credit risk, interest rate risk, and reinvestment risk must all be managed.

#### **Total Portfolio Guidelines**

The policy guidelines with respect to the total portfolio concentration limits are as follows:

1. The following are not permissible investments:
  - a. Securities issued in currencies other than the U.S. dollar.
  - b. Derivatives.
  - c. Loans.
2. No single credit issuer shall exceed 3 percent of the total portfolio's market value.
3. The individual country limit of non-U.S. and non-Canadian exposure is 2 percent of the market value of the total portfolio. The exposure is determined by the country of domicile of the issuers of the securities.

### **RESPONSIBILITIES**

#### **Washington State Investment Board**

The Board is responsible for approving the Commercial Paper and Corporate Notes Investment Policy for the State Treasurer, Local Governments, and Higher Education Institutions.

**Public Markets Committee**

The Committee is responsible for reviewing the investment policy and recommending any revisions to the Board.

**WSIB Staff**

Staff is responsible for recommending investment policy enhancements and changes to the Public Markets Committee.

**State and Local Government Staff and Higher Education Institution Staff**

State and local government staff and higher education institution staff are responsible for their investment decisions, obtaining any necessary independent expert financial advice related to investments covered by this policy, implementing the policy, and following best practices in accounting and reporting.

**POLICY REVIEW**

The Board shall review this policy at least once every three (3) years to ensure that it remains relevant and appropriate.

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