

RESOLUTION NO. 18-12

Amending and Restating the Investment Policy

WHEREAS, The Board of Directors approved an Investment Policy by Resolution No. 89-15, which was amended by the Board in August 1990, March 2010, and April 2014;

WHEREAS, The Investment Policy is periodically reviewed by Staff and Financial Advisors;

WHEREAS, With the Board's pending approval of the sale of the Dulles Airport Western Lands and the proposed amendment to the Airport Use Agreement and Premises Lease for Dulles International Airport, a review was undertaken to ensure that the Investment Policy is current, accurate, conforms to best practices, and will achieve certain investment objectives with respect to the net proceeds from the sale of the Dulles Airport Western Lands; and

WHEREAS, As a result of that review, Staff recommends that the Investment Policy be amended and restated to include the following:

- a) To clarify that the President and Chief Executive Officer is authorized to delegate authority for investment transactions;
- b) To add corporate debt as an allowable investment for funds not otherwise governed by bond indentures but only in a managed pool of funds for the two highest-rating categories;
- c) To modify the name of the rating company for bank deposits since LACE Quarterly Financial Institution Ratings are now Kroll Bond Ratings;
- d) To allow additional flexibility for the longer-term Western Lands' Account, whereby the primary objective of the investments should be capital appreciation subject to the preservation of capital; and




- e) To add the following asset classes as suitable for investing funds in the Western Lands' Account and specific investment in these asset classes will be subject to the written Investment Objectives and Procedures that will include target allocations and benchmarks for each unique asset class: domestic equity; domestic fixed income; foreign equity; convertible securities; real estate; and cash and cash equivalents; now, therefore, be it

RESOLVED, That the restated and amended Metropolitan Washington Airports Authority Investment Policy, as presented to the Finance Committee and Board of Directors on September 18, 2018, is hereby approved; and

2. That this resolution shall be effective upon its adoption.

Adopted September 18, 2018



Monica R. Hargrove, Secretary

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY
INVESTMENT POLICY
September 18, 2018

1.0 Scope

This Investment Policy applies to the investment activities of the Metropolitan Washington Airports Authority, including the Aviation Enterprise Fund, the Dulles Corridor Enterprise Fund and Western Lands Account, which will hold the proceeds from the sale of the Western Lands at Dulles International Airport, except for its Retirement Plan which is separately organized and administered.

2.0 Objectives

2.1 The primary objectives of the Airports Authority's investment activities for the Aviation Enterprise and the Dulles Corridor Enterprise Funds are the preservation of capital, the liquidity of the portfolio and the yield of the investments. The primary objective of the investment activities for the Western Lands' Account is capital appreciation subject to the preservation of capital.

2.1.1 The Airports Authority shall consider the safety of its capital in the overall portfolio for the Aviation Enterprise Fund and the Dulles Corridor Enterprise as a principal objective in investment activities. Each investment transaction for these Funds shall seek to first ensure that capital losses are avoided, whether they be from securities defaults or erosion of market value. For the Western Lands' Account, the Airports Authority shall seek to minimize the risk of loss of principal for the overall Account while minimizing the erosion of principal value through inflation.

2.1.2 The Airports Authority's investment portfolio will remain sufficiently liquid to enable the Airports Authority to meet operating requirements that might reasonably be anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets.

2.1.3 The Airports Authority's operating investment portfolio, excluding the Western Lands Account, shall be designed with the objective of regularly exceeding the average rate of return on the three month U.S. Treasury Bill, or the average Federal Reserve Discount rate, whichever is higher. The investment program shall seek to augment returns above this threshold

- consistent with risk limitations identified herein and prudent investment principles. The Western Lands Account investments will be designed to ensure a well-balanced, diversified portfolio that should serve a long-term investment goal. The addition of differing classes is expected to increase returns within acceptable risk levels (or risk tolerances). Benchmarks shall be established for each asset class and performance should be measured against those benchmarks.
- 2.1.4 Funds held for future capital projects shall be invested in securities that reasonably can be expected to assist in offsetting inflationary construction cost increases. The portfolio of construction funds should be designed with the objective of exceeding the average rate of return on the U.S. Treasury Bill most closely matching the weighted average maturity of the portfolio. However, such funds shall never be exposed to market price risks that would jeopardize the assets available to accomplish their stated objective, or be invested in a manner inconsistent with applicable federal and state regulations.
- 2.1.5 Funds held in the Western Lands' Account shall be, until depleted, invested to provide that funds in the Western Lands' Account, including investment earnings, used by the Airports Authority to offset costs the Airports Authority assigns to airlines operating at Dulles International Airport.
- 2.1.6 Consistent with the Airports Authority's Local Disadvantaged Business Enterprise Program, one month of operating cash reserve (excluding the Western Lands' Account) will be invested among regional banks which have a Community Reinvestment Act rating of "Outstanding" (or the equivalent), in certificates of deposit of one or more of the banks.
- 2.1.7 Regional Banks that do not qualify for the program as outlined in 2.1.5, shall be allowed to compete for investment deposits through an annual competitive solicitation process. The amount allocated will consist of an amount, not to exceed an additional one third (1/3) of the amount determined in accordance with 2.1.6. All deposits under this program must be either insured under FDIC or amounts in excess of FDIC limits must be fully collateralized.
- 2.1.8 All participants in the investment process shall act responsibly as custodians of the public trust. Investment officials shall avoid any transactions that might impair public confidence in the Airports Authority's ability to function effectively. The Airports Authority's Management recognizes that in a diversified portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate

diversification has been achieved.

3.0 Procedures

Written Investment Objectives and Procedures shall be established for the operation of the investment program, consistent with this Investment Policy. Such procedures shall include explicit delegation of authority from the President and Chief Executive Officer to persons responsible for investment transactions, and shall include investment benchmarks for each class of assets.

4.0 Investments

Permitted investments are included as exhibits to this Investment Policy.

4.1 Funds not covered by bond indentures of the Metropolitan Washington Airports Authority may be invested in securities outlined in Exhibit A.

4.2 All Bond funds, whether proceeds or debt service, may be invested in securities as permitted in the bond indentures for the Aviation Enterprise Fund and the Dulles Corridor Enterprise Fund (outlined in Exhibit B).

4.3 Funds in the Western Lands Account may be invested in securities outlined in Exhibit C.

5.0 Control

5.1. Investments shall be made with the exercise of due care, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

5.2 Employees and investment officials directly involved in the investment process shall disclose to the President in writing at least annually their financial interests in financial institutions that conduct business with the Airports Authority and they shall further disclose all personal financial/investment positions that could be related to the performance of the Airports Authority's portfolio. Officials and employees involved in the investment process shall refrain from personal business activity, other than routine banking relations, that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. All employees and investment officials involved in the investment process are to act in a reasonable and prudent manner to

further the interests of the Airports Authority.

**Metropolitan Washington Airports Authority
Permitted Investments for the Aviation Enterprise and Dulles Corridor
Enterprise Funds not covered by Bond Indentures (Excluding the
Western Lands Account)**

Funds of the Metropolitan Washington Airports Authority, not covered by bond indentures, may be invested in:

- A. U.S. Treasury securities;
- B. Short term (five years or less) obligations of U.S. Government agencies, including securities backed by the full faith and credit of the United States;
- C. Repurchase agreements whose underlying collateral consist of the foregoing listed in this section (A) and (B);
- D. Short term (five years or less) obligations of the Commonwealth of Virginia, the State of Maryland or the District of Columbia;
- E. Prime Commercial Paper;
- F. Prime Bankers Acceptance Notes;
- G. Corporate debt guaranteed by any corporation that is rated in one of the two highest-rating categories by the Rating Agencies but only when included in managed pooled investment funds;
- H. Money Market Funds whose underlying collateral consist of the foregoing;
- I. Certificates of Deposits of banks with a Kroll Bond Rating of "B" or better or fully insured or collateralized certificates of deposits at commercial banks and savings and loan associations; and

Other such securities or obligations which may be approved by the Finance Committee and the Board of Directors by modification of this Investment Policy.

**Metropolitan Washington Airports Authority
Permitted Investments per the Aviation Enterprise Fund and the Dulles
Corridor Enterprise Fund Master Trust Indentures**

Terms referenced herein are defined by the Master Trust Indentures for the Aviation Enterprise Fund and the Dulles Corridor Enterprise Fund. Permitted Investments shall mean and include any of the following, if and to the extent the same are at the time legal for the investment of the Airports Authority's money:

- A. Government Obligations and Government Certificates.

- B. Obligations issued or guaranteed by any of the following:
 - (i) Federal Home Loan Bank System;
 - (ii) Export-Import Bank of the United States;
 - (iii) Federal Financing Bank;
 - (iv) Government National Mortgage Association;
 - (v) Farmers Home Administration;
 - (vi) Federal Home Loan Mortgage Corporation;
 - (vii) Federal Housing Administration;
 - (viii) Private Export Funding Corp;
 - (ix) Federal National Mortgage Association; and
 - (x) Federal Farm Credit Bank; and
 - (xi) Or any indebtedness issued or guaranteed by any instrumentality or agency of the United States.

- C. Pre-refunded municipal obligations rated at the time of purchase in the highest rating category by, or otherwise acceptable to, the Rating Agencies and meeting the following conditions:
 - (i) such obligations are (a) not to be redeemed prior to maturity or the Trustee has been given irrevocable instructions concerning their calling and redemption and (b) the issuer of such obligations has covenanted not to redeem such obligations other than as set forth in such instructions;
 - (ii) such obligations are secured by Government Obligations or Government Certificates that may be applied only to interest, principal, and premium payments of such obligations;
 - (iii) the principal of and interest on such Government Obligations or Government Certificates (plus any cash in the escrow fund with respect to such pre-refunded obligations) are sufficient to meet the liabilities of the obligations;
 - (iv) the Government Obligations or Government Certificates serving as security for the obligations are held by an escrow agent or trustee; and

- (v) such Government Obligations or Government Certificates are not available to satisfy any other claims, including those against the trustee or escrow agent.
- D. Direct and general long-term obligations of any state of the United States of America or the District of Columbia (a "*State*"), to the payment of which the full faith and credit of such State is pledged and that at the time of purchase are rated in either of the two highest rating categories by, or are otherwise acceptable to the Rating Agencies.
- E. Direct and general short-term obligations of any State, to the payment of which the full faith and credit of such State is pledged and that at the time of purchase are rated in the highest rating category by, or are otherwise acceptable to the Rating Agencies.
- F. Interest-bearing demand or time deposits with, or interests in money market portfolios rated AAA by Standard & Poor's issued by, state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation ("*FDIC*"). Such deposits or interests must be:
- (i) continuously and fully insured by FDIC,
 - (ii) if they have a maturity of one year or less, with or issued by banks that at the time of purchase are rated in one of the two highest short term rating categories by, or are otherwise acceptable to, the Rating Agencies,
 - (iii) if they have a maturity longer than one year, with or issued by banks that at the time of purchase are rated in one of the two highest rating categories by, or are otherwise acceptable to, the Rating Agencies, or
 - (iv) fully secured by Government Obligations and Government Certificates. Such Government Obligations and Government Certificates must have a market value at all times at least equal to the principal amount of the deposits or interests. The Government Obligations and Government Certificates must be held by a third party (who shall not be the provider of the collateral), or by any Federal Reserve Bank or depository, as custodian for the institution issuing the deposits or interests. Such third party should have a perfected first lien in the Government Obligations and Government Certificates serving as collateral, and such collateral is to be free from all other third party liens.

- G. Eurodollar time deposits issued by a bank with a deposit rating at the time of purchase in one of the top two short-term deposit rating categories by, or otherwise acceptable to the Rating Agencies.
- H. Long-term or medium-term corporate debt guaranteed by any corporation that is rated in one of the two highest rating categories by, or is otherwise acceptable to the Rating Agencies.
- I. Repurchase agreements,
 - (i) the maturities of which are 30 days or less or
 - (ii) the maturities of which are longer than 30 days and not longer than one year provided the collateral subject to such agreements are marked to market daily, entered into with financial institutions such as banks or trust companies organized under State law or national banking associations, insurance companies, or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation, or with a dealer or parent holding company that is rated at the time of purchase investment grade by, or is otherwise acceptable to the Rating Agencies. The repurchase agreement should be in respect of Government Obligations and Government Certificates or obligations described in paragraph (b) of this definition. The repurchase agreement securities and, to the extent necessary, Government Obligations and Government Certificates or obligations described in paragraph (b), exclusive of accrued interest, shall be maintained in an amount at least equal to the amount invested in the repurchase agreements. In addition, the provisions of the repurchase agreement shall meet the following additional criteria:
 - (a) the third party (who shall not be the provider of the collateral) has possession of the repurchase agreement securities and the Government Obligations and Government Certificates;
 - (b) failure to maintain the requisite collateral levels will require the third party having possession of the securities to liquidate the securities immediately; and
 - (c) the third party having possession of the securities has a perfected, first priority security interest in the securities.

- J. Prime commercial paper of a corporation, finance company or banking institution at the time of purchase rated in the highest short-term rating category by, or otherwise acceptable to the Rating Agencies.
- K. Public housing bonds issued by public agencies. Such bonds must be: fully secured by a pledge of annual contributions under a contract with the United States of America; temporary notes, preliminary loan notes or project notes secured by a requisition or payment agreement with the United States of America; or state or public agency or municipality obligations at the time of purchase rated in the highest credit rating category by, or otherwise acceptable to the Rating Agencies.
- L. Shares of a diversified open-end management investment company, as defined in the Investment Company Act of 1940, or shares in a regulated investment company, as defined in Section 851(a) of the Code, that is a money market fund that at the time of purchase has been rated in the highest rating category by, or is otherwise acceptable to the Rating Agencies.
- M. Money market accounts of any state or federal bank, or bank whose holding parent company is, at the time of purchase rated in one of the top two short-term or long-term rating categories by, or is otherwise acceptable to the Rating Agencies.
- N. Investment agreements, the issuer of which is at the time of purchase rated in one of the two highest rating categories, by, or is otherwise acceptable to the Rating Agencies.
- O. Any debt or fixed income security, the issuer of which is at the time of purchase rated in the highest rating category by, or is otherwise acceptable to the Rating Agencies.
- P. Investment agreements or guaranteed investment contracts that are fully secured by obligations described in items (a) or (b) of the definition of Permitted Investments which are:
 - (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 103% of the principal amount of the investment, together with the interest accrued and unpaid thereon,
 - (ii) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee,

- (iii) subject to a perfected first lien on behalf of the Trustee, and
- (iv) free and clear from all third-party liens.

Q. Any other type of investment consistent with the Airports Authority's Investment Policy in which an Airports Authority Representative directs the Trustee to invest and there is delivered to the Trustee a certificate of an Airports Authority Representative stating that each of the Rating Agencies has been informed of the proposal to invest in such investment and each Rating Agency has confirmed that such investment will not adversely affect the rating then assigned by such Rating Agency to any of the Bonds.

**Metropolitan Washington Airports Authority
Permitted Investments for the Western Lands' Account**

The proceeds from the sale of the Western Lands must be invested in compliance with the Use and Lease Agreement between Washington Dulles International Airport (Dulles International) and the airlines serving IAD (and subject to any limitations imposed by law).

These proceeds may be invested in the following asset classes:

1. Domestic Equity

- a. Equity investments shall be made with a view toward achieving a total rate of return (market appreciation plus dividend income). All equity investments shall be in companies whose respective market capitalizations are consistent with specific established benchmarks.
- b. All securities shall be of a class listed on a national securities exchange or traded in the over-the-counter market and quoted on the National Association of Securities Dealers Automatic Quotation Service.
- c. Industry and sector allocations should ensure prudent diversification and risk control.

2. Domestic Fixed Income

The fixed income portion of the Plan's assets shall be invested in marketable fixed income securities of the first four quality grades as established by one or more of the nationally recognized bond ratings services. The average quality of all the Bond holdings in the portfolio should be maintained at A or better. The following instruments are acceptable:

- a. Commercial Paper or Variable Rate Notes rated P-1 Moody's Investor's Services, A1 by Standard & Poor's or F1 by Fitch.
- b. Certificates of Deposit and Bankers Acceptances rated A or better by Moody's Investor's Service or equivalent by Standard & Poor's.
- c. United States Treasury Bonds, Notes and Bills.
- d. Debt instruments of the U.S. Government or its Agencies.
- e. Commercial Mortgage Backed Securities and Asset Backed Securities.
- f. Publicly traded dollar-denominated U.S. corporate debt, sovereign and supranational entities rated the equivalent of Baa3/BBB- or better by Moody's Investor's Services, Standard & Poor's, or Fitch Investor's Services. In case of a split rating among the three rating services, shall defer to the middle rating. In the event that ratings are provided by only two agencies, defer to the lowest rating; if only one agency assigns a rating, then accept it as the assigned rating.

3. Foreign Equity

The Portfolio may include the securities of foreign companies traded on U.S. exchanges or in U.S. markets. These holdings shall be limited to those denominated in U.S. dollars and listed and traded on major domestic exchanges.

4. Convertible Securities

a. Invest primarily in convertible securities such as bonds, debentures, corporate notes and preferred stocks or other securities that are convertible into common stock or the cash value of stock or a basket or index of equity securities.

b. Rule 144A securities (convertible debt and equity) are permitted.

5. Real Estate

The Real Estate portion of the Plan's assets may be invested in pooled Real Estate vehicles, limited partnerships, limited liability partnerships, limited liability companies or other types of Real Estate investments.

6. Cash and Cash Equivalents

Uninvested cash balances should be kept to a minimum through the prompt investment of available funds in short-term or more permanent security holdings. Funds may be invested in commercial paper, repurchase agreements, Treasury Bills, certificates of deposit, and money market funds to provide income, liquidity for expense payments, and preservation of the portfolio's principal value.

7. Prohibited Transactions. Investing in the following is expressly prohibited:

- commodities,
- private placements,
- direct real estate investments,
- direct oil, gas and mineral exploration investments,
- nominally public issues for which the market is severely restricted
- letter or restricted stock, options, futures and forward contracts and/or any other derivative instrument
- engaging in short sales, margin transactions or other specialized investment activities.
- Issuers who have currently filed a petition for bankruptcy. Securities of issuers that file for bankruptcy subsequent to purchase resulting in violation of this restriction may be held at the President and CEO's discretion.