

Part 4 INVESTMENT POLICY

Chapter 1 Investment Rules

Article 1 – Guidelines and Practices

1.1 Investment Authority and Delegation of Authority

This investment policy is intended to outline the guidelines and practices to be used in effectively managing the District's available cash and investment portfolio. District monies not required for immediate cash requirements will be invested in compliance with the California Government Code Section 53600 et seq.

The authority to invest public funds is expressly delegated to the Board of Directors, the Board re-delegates the investment function annually to an appointed Treasurer, which will be District staff, who shall thereafter assume full responsibility for those transactions until the delegation is revoked or expires. The appointed Treasurer may delegate the day-to-day operations of investing to the Deputy Treasurer, but not the responsibility for the overall investment program. All transactions will be reviewed by the appointed Treasurer on a regular basis to assure compliance with the Investment Policy. (California Government Code 53607)

It is the District's full intent, at the time of purchase, to hold all investments until maturity in order to ensure the return of all invested principal.

1.2 Statement of Objectives

The District has established the following as a guideline to prudent investment strategy:

- A. Legal Investment Authority - temporary idle funds are to be invested in accordance with California Government Code Sections 53600 et.seq.
- B. Safety of Principal - investments shall be undertaken which first seeks to ensure the preservation of principal in the portfolio. The Treasurer shall ensure each investment transaction is evaluated or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral, and shall diversify the portfolio to reduce exposure to principal loss. The District shall seek to preserve principal by mitigating the two types of risk in order of importance:
 - a) Credit Risk - defined as the risk of loss due to failure of an issuer of a security. This shall be mitigated by purchasing securities guaranteed by the U.S. Government or high grade securities.

- b) Interest Rate Risk - risk that the market value of securities in the portfolio will fall due to changes in general interest rate. This may be mitigated by structuring portfolio to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term securities.
- C. Liquidity - investments shall be made whose maturity date is compatible with cash flow requirements and which will permit easy and rapid conversion into cash without substantial loss of value.
- D. Yield on Investment - investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity and the prudent investor standard.

1.3 Prudent Investor Standard

The Board of Directors and Treasurer adhere to the guidance provided by the “prudent investor rule”, California Government Code (Section 53600.3) which obligates a fiduciary to ensure that “When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

1.4 Reporting Requirements

In accordance with Government Code Section 53646, the Treasurer shall submit a monthly report to the Executive Secretary of the Board of Directors via the General Manager indicating the types of investment by fund, institution, date of maturity, and amount of deposit, and shall provide the current market value of all securities with a maturity of more than 12 months, rates of interest, and expected yield to maturity.

The Treasurer shall also submit a monthly summary report to the Board of Directors via the General Manager showing investment activity and the status of cash by depository. Finally, the Treasurer’s report shall include a certification regarding the District’s ability to meet the expenditure requirements for the next six months, or provide an explanation as to why sufficient funds shall, or may, not be available.

1.5 Investment Policy Administration

The Treasurer may, at any time, further restrict the securities approved for investment as deemed appropriate. This policy shall be reviewed at least annually by the Board of Directors.

Additionally, the Treasurer shall annually send a copy of the current Investment Policy to all approved dealers. Each dealer is required to return a signed statement indicating receipt and understanding of the District's investment policies.

1.6 Internal Control

Internal policies and procedures have been developed to assure that appropriate controls are in place to document and confirm all transactions. An independent analysis by external auditor shall be conducted annually to review internal controls, account activity and compliance with policies and procedures.

Chapter 2 Institutions and Dealers

Article 1 - Authorized Financial Institutions and Securities Dealers

1.1 Brokers and Dealers

For brokers/dealers of government securities and other investments, the Treasurer shall select only brokers/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations. Before engaging in investment transactions with a broker/dealer, the Treasurer shall obtain a signed verification form that attest the individual has reviewed the District's Investment Policy, and intends to present only those investment recommendations and transactions to the District that is appropriate under the terms and conditions of the Investment Policy.

The Board of Directors may engage the services of one or more external managers to assist in the management of the District's investment portfolio. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisors Act of 1940.

Chapter 3 Investment Portfolio

Article 1 – Security Investments

1.1 Portfolio Limitations

Any reference to the portfolio shall mean the total of the District's cash and securities under management by the Treasurer. The Treasurer may invest in any security authorized for investment under state law, subject to the limitations described herein:

- (a) Maturity Limitations - The Treasurer is authorized to invest District funds for terms set forth below. For certain instruments, the term of the investment is limited by market convention or as otherwise prescribed herein. No investments may be acquired that exceed 5 years.
- (b) Investment Transactions - Information concerning investment opportunities and market developments will be gained by maintaining contact with the financial community. Confirmations of all investment transactions will be maintained by the Budget and Finance Department for the annual audit. When practicable, the Treasurer shall solicit more than one quotation on each trade.

Eligible securities could be purchased at their original sale or after they have been issued. (California Government Code 53603)
- (c) Exchange of Securities - An exchange of securities is a shift of assets from one instrument to another and may be done for a variety of reasons, such as to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality. In no instance shall an exchange be used for speculative purposes. Any such exchange shall be simultaneous (same day execution of sale and purchase), and shall require the approval of the Treasurer.
- (d) Safekeeping - All securities purchased should be made on a delivery versus payment (DVP) basis, registered under the name of Central Basin Municipal Water District, and held in safekeeping by a third party bank trust department, acting as agent for the District pursuant to the terms of a custody agreement. The trust department of the District's bank may act as third party custodian, provided that the custodian agreement is separate and apart from the banking agreement.
- (e) Prohibited Investments - Under the provisions of the California Government Code Sections 53601.6 and 53631.5, the District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, mortgage-derived, interest-only strips or any investment that may result in a zero interest accrual if held to maturity.

1.2 Authorized Investments

The District is governed by the California Government Code, Sections 53600 et. seq. Within the context of these limitations, the investments listed below are authorized. Those investments not identified in Section VI are considered to be ineligible. Credit criteria and maximum percentages listed in this section are calculated at the time the security is purchased.

A. Time Deposits

The Treasurer may invest in certificates of deposit issued by bank or savings and loans chartered by the United States or California. For purposes of this policy, collateralized time deposits shall be considered investments.

The following criteria will be used in evaluating financial institutions and form of collateral to determine eligibility for deposits:

- a) The financial institution must have been in existence for at least five years.
- b) Eligibility for deposits shall be limited to those financial institutions which maintain a rating equivalent to "A" or higher by one of the nationally recognized statistical-rating organizations (NRSRO).
- c) The deposit shall not exceed 25 percent of the shareholders' equity of any depository bank. For the purposes of this constraint, shareholders' equity shall be deemed to include capital notes and debentures. (Government Code Section 53638 (a))
- d) The deposit shall not exceed 25 percent of the total of the net worth of any depository savings and loan association.
- e) The total deposits shall not exceed 25 percent of the eligible financial institution's paid-up capital and surplus. (Government Code Section 53638 (b))
- f) To secure such deposits, the financial institution shall maintain in the collateral pool, marketable securities having a market value of at least 10 percent in excess of the total amount deposited. (Government Code Section 53652)
- g) The maximum term for time deposits or bank certificate of deposits shall be one year.

B. Local Agency Investment Fund (LAIF) Deposits

Deposits for the purpose of investment in the Local Agency Investment Fund of the State Treasury may be made up to the maximum amount permitted by State Treasury policy.

C. Negotiable Certificates of Deposit

The Treasurer may invest in negotiable certificates of deposit as follows:

- (a) Investment in negotiable certificates of deposit shall not exceed 30 percent of the total portfolio in effect immediately after any such investment is made.
- (b) To be eligible, a certificate of deposit must be issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank.(Government Code Section 53601 (i))
- (c) All deposits may only be made in institutions that enable the deposit in addition to accrued interest to be fully FDIC insured.
- (d) The investment shall not exceed 25 percent of the shareholders' equity of any depository bank. For the purposes of this constraint, shareholders' equity shall be deemed to include capital notes and debentures. (Government Code Section 53638(a))
- (e) The investment shall not exceed 25 percent of the total net worth of any depository savings and loan association.
- (f) The total investment in an eligible financial institution shall not exceed 25 percent of the total portfolio available for investment in this investment category.
- (g) The maximum maturity shall be limited to five years.

D. Bankers' Acceptances

The Treasurer may invest in bankers' acceptances as follows:

- (a) Investment in prime bankers' acceptance shall not exceed 15 percent of the portfolio in effect immediately after any such investment is made.
- (b) Eligibility shall be limited to those bankers acceptances' issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by one or more of the NRSRO.

(c) No more than 15 percent of this category of investments may be invested in any one commercial bank's acceptances. (Government Code Section 53601(g))

(d) The maximum maturity shall be limited to 180 days. (Government Code Section 53601 (g))

E. Commercial Paper

The Treasurer may invest in commercial paper as follows:

(a) Only commercial paper of prime quality of the highest ranking or of the highest letter and numerical rating as provided for by NRSRO. (Government Code Sections 53601 (h))

(b) Eligible paper is further limited to issuing corporations that are organized and operating within the United States as a general corporation and having total assets in excess of \$500,000,000.

(c) Eligible issuer's debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

(d) Investments in commercial paper shall not exceed 25 percent of the portfolio.

(e) No more than 10 percent of the outstanding commercial paper of an issuing corporation may be purchased.

(f) The term shall not exceed 270 days.

F. U.S. Treasuries

The Treasurer may invest in United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest. (Government Code 53601 (b))

G. Federal Agencies

The Treasurer may invest in Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. (Government Code 53601 (f))

Includes obligations issued by the Federal Home Loan Banks, the Government National Mortgage Association, the Farm Credit System, the Federal Home Loan Mortgage Association, the Federal National Mortgage Association, or obligations or other

instruments of or issued by a federal agency or a United States Government sponsored enterprise.

H. Money Market Funds

The Treasurer may invest in shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. (Government Code Section 53601(l))

The following criteria will be used in evaluating funds:

- a) Attain the highest ranking letter and numerical rating provided by not less than two NRSRO; or
- b) Have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds and with assets under management in excess of \$500,000,000.
- c) The maximum purchase price of shares shall not exceed 20% of the portfolio.

I. Medium-Term Notes

The Treasurer may invest in medium-term notes issued by U.S. Corporations with “A” ratings or higher. The term shall not exceed five years and shall not exceed 10% of the portfolio.

J. Municipal Bonds

The Treasurer may invest in municipal bonds with “A” ratings or higher by Standard and Poors and A2 by Moody’s. The term shall not exceed five years and shall not exceed 20% of the portfolio.

K. Los Angeles County Pooled Investment Fund

Deposits for the purpose of investment in the Los Angeles County Pooled Investment Fund administered by the Los Angeles County Treasurer may be made up to the maximum amount permitted by the Treasurer’s policy.

1.3 Market Yield (Benchmark)

The Treasurer shall determine whether market yields are being achieved using one of the following basis:

- Local Agency Investment Fund (LAIF)
- Los Angeles County Pooled Investment Fund (LACPIF)
- 3-month, 6-month, and 1-year Treasury Bills

1.4 Bond Funds

Investment of bond proceeds shall be subject to the conditions and restrictions of bond documents and are not governed by this policy.

1.5 Trust Funds

Investment of District pension trust funds are governed by the provisions of California Government Code Sections 53215 through 53224.

Investment of District post-employment health benefit trust funds are governed by the provisions of California Government Code Sections 53620-53622.