

CARMICHAEL WATER DISTRICT **Directors' Policy Manual**

POLICY TITLE: **Investment of District Funds**

POLICY NUMBER: **9600**

9600.10 The purpose of this policy is to provide a framework and guidelines for the prudent investment of the District's funds and outline policies for sound investment practices. The objective is to invest public funds in a manner that will provide the highest return consistent with preserving maximum security, limiting unnecessary exposure to risk, maintaining sufficient liquidity, and enhancing the economic status while conforming to state and local statutes governing investment of public funds.

9600.20 Scope

This policy applies to all moneys (surplus financial assets) of the District, including the proceeds of certain capital project finance programs, of which are invested in accordance with the provisions of their specific agreements. These moneys are accounted for in the District's annual financial statements, budgets and other financial reports.

9600.21 The exceptions to these moneys will be the investment of bond reserve funds and grant funds. Bond reserve and grant funds will be invested in accordance with the statutory provisions governing the issuance of the bonds or grants or the actual bond or grant documents, as applicable. Other exceptions are the investment of District pension funds, governed by California Government Code Sections 53215-53224, and investment of post-employment health benefit trust funds, governed by California Government Code Sections 53620-53622.

9600.22 With the exception of cash in restricted and special funds, the District will consolidate cash balances from all funds to the extent practicable in order to maximize earnings and minimize fees.

9600.30 Prudent Investor Standard

The Board of Directors, General Manager, Treasurer, and all those engaged in the management of District moneys will apply the Prudent Investor Standard as described in California Government Code section 53600.3 in making all investment decisions. This statute provides that, “[w]hen 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 organization, that a prudent person 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 organization”.

9600.40 Investment Objectives

Investments of District moneys not required for immediate expenditure will be selected using the following criteria in this order of priority: safety, liquidity, and return on investment.

9600.41 Safety

Safety of principal is the foremost objective of the District. Investments will be executed in a manner that seeks to ensure preservation of capital in the overall portfolio. In attaining this objective, the District will strive to mitigate credit risk and interest rate risk.

9600.41.1 Credit Risk

The District will minimize credit risk, the risk of loss due to the failure of the security issuer/backer by: (a) limiting investments to those allowed by this policy; (b) prequalifying financial institutions, broker/dealers, intermediaries and advisors; and (c) diversifying the investment portfolio by a variety of securities offering independent returns and financial institutions.

9600.41.2 Interest Rate Risk

The District will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by: structuring the investment portfolio so that securities meet the cash flow requirements thereby avoiding, to the extent possible, the need to sell securities on the open market prior to maturity; and investing operating funds in shorter-term securities. It is explicitly recognized herein that occasional losses in a diversified portfolio are inevitable, and must be considered within the context of the overall investment returns.

9600.42 Liquidity

The District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated. A portion of the portfolio shall be maintained in collateralized bank deposits, the State's investment pool or other liquid investments for use to meet District disbursement requirements. To the extent possible, investments will be made with maturity dates compatible with cash flow requirements to permit conversion to cash without significant loss in value.

9600.42.1 Liquidity Categories

The investments shall be categorized to aid in decision making for operational and investment cash flow needs and for types of investment allocations. The three categories are defined as follows:

Short term – Investments held for one year or less.

Mid-term – Investments held over one year up to five years.

Long-term – investments held for more than five years.

9600.43 Return on Investment

The investment portfolio will be designed to attain an acceptable rate of return, taking into account the investment risk constraints and cash flow requirements.

9600.50 Delegation of Authority

Management responsibility for the investment program is hereby delegated, pursuant to Section 53607 of the Government Code, to the General Manager and the Treasurer and this delegation shall be subject to annual renewal. The responsibility to execute investment transactions may be further delegated under the direction of the General Manager and the Treasurer. The General Manager and the Treasurer, shall establish written

procedures for the operation of the investment program consistent with this investment policy. This responsibility includes authority to select brokers, establish safekeeping accounts, enter into wire transfer agreements, banking service contracts, and collateral/depository agreements that are consistent with and subject to this Policy. The General Manager and Treasurer shall be responsible for all transactions undertaken and shall establish a system of internal controls to regulate the activities of internal staff and any external investment advisors.

The District may engage the services of external investment advisors/managers to assist in the management of the District's investment portfolio in a manner consistent with the District's investment policy and investment objectives. Such external advisors/managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy and at the specific direction of the General Manager and Treasurer. Such external investment managers must be registered under the Investment Advisors Act of 1940.

9600.60 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or impairs their ability to make impartial investment decisions and avoid any conflicts-of-interest prohibited by Government Code section 1090, the Political Reform Act, or Government Code section 1126. Employees and investment officers must file applicable annual financial disclosures as required by the Fair Political Practices Commission (FPPC) and /or the District's Conflict of Interest Code. Employees and officers involved in the investment process shall (1) disclose any financial interest in financial institutions that conduct business with the District; (2) disclose any personal financial/investment positions that might be affected by the performance or management of the District's portfolio; (3) subordinate their personal investment transactions to those of the District, particularly with regard to the timing of purchases and sales; and (4) shall avoid transactions that might impair public confidence.

9600.70 Authorized Financial Broker/Dealers, Investment Advisors and Institutions

The District shall transact business only with banks, associations, and with broker/dealers licensed by the State of California. Investment staff shall investigate dealers who wish to do business with the District to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker and make markets in the securities appropriate to the District's needs. Upon recommendation by the General Manager or Treasurer, financial institutions and/or broker dealers shall be considered for approval by the Board of Directors. Only those broker/dealers or financial institutions approved by the Board of Directors shall provide services to the District.

The District's General Manager or Treasurer shall annually, or as this policy is updated, send a copy of the current investment policy to all broker/dealers and authorized investment advisors approved to do business with the District. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the District's investment policies and objectives, and agree to sell the District only appropriate investments authorized by this investment policy.

9600.80 Authorized and Permitted Investments

Eligible investments of District funds is governed by the California Government Code sections 53600 through 53609. If a type of investment is added to the California Government Code list, it can only be added to the District's Authorized and Permitted list with an amendment to this Investment Policy approved by the Board of Directors. If a type of security is not specifically authorized by this policy, it is not an Authorized and Permitted investment.

The following investments are Authorized and Permitted:

Investment Type	Maximum percentage or amount of holdings	Maximum Maturity
U.S. Treasury Bonds/Notes/Bills	0% to 100%	5 years
U.S. Government Agency Securities and Instrumentalities of Government-Sponsored Corporations	0% to 100%	5 years
Bankers' acceptances	0% to 40%	180 days
Commercial paper (rated P-1 or higher with Moody's or A-1 Standard & Poor's)	0% - 25%	270 days
Negotiable certificates of deposit	0% - 30%	5 years
Local Agency Investment Fund (LAIF), California Cooperative Liquid Assets Securities System (CLASS), and Investment Trust of California (CalTrust)	\$0 to \$75,000,000	Upon demand
Public funds checking or savings accounts	0% to 100%	Upon demand
State of California bonds/notes	0% to 30%	5 years
California local agency bonds/notes	0% to 30%	5 years
Outside California State bonds/notes	0% to 30%	5 years
Medium term corporate notes rated "A" or higher	0% to 30%	5 years
Mutual funds/money market funds	0% to 15%	Upon demand
Collateralized bank deposits	0% to 100%	Upon demand

9600.90 Prohibited Investments

In accordance with the provisions of California Government Code Sections 53601.6 and 53631.5, the District shall not invest in inverse floaters, range notes, mortgage-derived interest only strips, or any security that could result in zero interest accrual. Investments in convertible virtual currencies or assets based on blockchain technology including but not limited to, crypto currency, stablecoin or bitcoin, non-fungible tokens (NFT's), or other digital types of assets are prohibited.

Any State of California legislative action that further restricts allowable maturities, investment types or percentage allocations will be effective upon enactment and deemed incorporated into the District's Investment Policy and supersedes any and all previous applicable language. If the District is holding an investment that is subsequently prohibited by a legislative change, and provided such action is allowable under the applicable legislation, the District may hold that investment if it is deemed prudent by the Board of Directors until the maturity date to avoid an unnecessary loss.

9600.100 Diversification and Maximum Maturities

The District will diversify its investments by security type and institution. Except for U.S. Securities, U.S. Agency Obligations and authorized pools (such as LAIF), no more than 5% of the District's total investment portfolio will be invested in a single security type, single financial institution, or issuer. The diversification of

the portfolio will be dependent upon current and future cash flow requirements. To the extent possible, the District will strive to match its investment maturities with anticipated cash flow requirements.

9600.110 Investment Pools/Mutual Funds

The General Manager and Treasurer shall review each pool and or fund prior to investing and shall, at a minimum, obtain a thorough understanding of the following information prior to investing and on a regular basis:

- Authorized investments and compliance with District investment policy/objectives
 - Eligibility for holding bond proceeds
- Deposit/withdrawal and investment limitations
- Interest calculations/distributions and treatment of gains/losses
- Settlement process
- Fee schedules and when/how assessed
- Safeguarding of investments, including the pool's or fund's policies, objectives, limitations, and frequencies of audits
- Utilization of reserves by fund
- Frequency of statements and reporting processes

9600.120 Collateralization

A financial institution must provide coverage for at least 110% of all District deposits that are placed in the institution and must be acceptable pooled collateral requirements as required by California Government Code Section 53651. Real estate mortgages are not considered acceptable collateral for District deposits.

9600.130 Safekeeping and Custody

To protect against fraud, embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the District shall be held in safekeeping by a third party custodian, acting as agent for the District under the terms of a trust or custody agreement executed by the General Manager or Treasurer. All security transactions will settle delivery vs. payment (DVP) through the District's safekeeping agent. Securities purchased from brokers/dealers shall be held in third party safekeeping by the trust department of the District's bank, or by another third party trustee designated by the General Manager and the Treasurer. No outside broker/dealer or advisor shall have access to District funds, accounts, or investments and any transfer of funds must be approved by the General Manager and the Treasurer.

9600.140 Reporting and Internal Control

In accordance with California Government Code Section 53646 (b), the Treasurer may issue a quarterly report within 45 days following the end of the quarter to the General Manager and Board of Directors showing the type of investment, issuer and/or institution, date of maturity, amount of investment, current market value for all securities, rate of interest and other relevant data that may be required. The quarterly report shall certify compliance of the investment portfolio with the Investment Policy and shall include a statement denoting the ability of the District to meet its pool expenditure requirements for the next six months.

The Treasurer shall also, in accordance with Government Code section 53607, issue a monthly report of transactions to invest or to reinvest funds of the District and to sell or exchange securities purchased. This report also shall be provided to the Board of Directors.

The General Manager and the Treasurer will maintain a system of internal controls to address at least the following areas:

- Maintain third party custodial safekeeping
- Obtain written confirmation of authorization to make authorized trades from authorized parties
- Separation of duties of transaction authority from accounting and record keeping
- Monitor for legal compliance and investment policy compliance.

The annual audit will include an independent review by the external auditor to confirm proper internal controls exist.

9600.150 Performance Standards

Investment performance will be continually monitored by the Board of Directors, the General Manager and/or the Treasurer and by any external managers and/or investment advisors. The investment portfolio shall be designed to attain a market average rate of return through budgetary and economic cycles, taking into account the investment risk constraints and cash flow needs.

9600.160 Investment Policy Revisions

The District investment policy shall be reviewed and re-adopted, with or without changes, by resolution of the Board on an annual basis each January and will be distributed as required by this policy after approval at the January Board meeting if the investment policy is modified. The purpose of the annual investment policy review is to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return on investment, and its relevance to current law and financial and economic trends. When necessary or warranted, this policy may be reviewed and amended at any time, subject to review and approval by the Board of Directors.

9600.170 Glossary

The following is a definition of the cash management terms to assist with policy administration:

Accrued interest: Interest earned but not yet received.

Amortization: An accounting practice of gradually decreasing (increasing) and asset's book value by spreading its depreciation (accretion) over a period of time.

Asked: The price at which securities are offered.

Banker's acceptance (BA): A draft bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Basis point: One basis point is one hundredth of one percent (.01).

Bid: The price offered by a buyer of securities.

Bond: A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book entry: A system of recording securities ownership through electronic accounts. In book-entry-only issues, investors do not receive physical certificates evidencing security ownership, but a custodian holds one or more global certificates.

Book value: The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Broker: A person assisting in the buying and selling of investments for a commission.

Callable bond: A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Certificate of deposit (CD): A time deposit with a specific maturity evidenced by a certificate; large denominations are typically negotiable.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also securities pledged by a bank to secure public money deposits.

Commercial paper: Short term obligations with maturities ranging from 2 to 270 days that are issued by banks, corporations, and other borrowers to investors with temporarily idle cash.

Corporate notes: A debt instrument issued by a private corporation, as distinct from one issued by a government agency or a municipality.

Coupon: The annual rate of interest on a debt security that a bond issuer promises to pay the bondholder on the bond's face (or par) value.

Credit analysis: A critical review and appraisal of the economic and financial conditions and/or the ability to meet debt obligations of an issuer, borrower, entity, etc.

Current yield: The interest paid on an investment expressed as a percentage of the current price of the security.

CUSIP: The Committee on Uniform Securities Information Procedures (CUSIP) number is an identification number assigned to each publicly traded security. The CUSIP Service Bureau, operated by Standard & Poor's for the American Bankers' Association, assigns the identification numbers.

Custodian: A bank or other financial institution that keeps custody of stock certificates and other assets.

Dealer: A person or firm acting as a principal in a securities transaction, buying and selling for his/her own account.

Discount: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Fair value: The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal agency securities: Securities issued by agencies of the Federal Government such as Federal Farm Credit Bank (FFCB) and the Tennessee Valley Authority (TVA), Federal National Mortgage Association (FNMA) that are not general obligations of the U.S. Treasury but are sponsored by the government and therefore have high safety ratings.

Federal Deposit Insurance Corporation (FDIC): A U.S. Government corporation that guarantees deposits of banks and savings and loans. The FDIC provides deposit insurance to certain customer checking and savings deposits up to a current amount of \$250,000 per account.

Government securities: An obligation of the U.S. Government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. Securities market.

Liquidity: The ability to buy or sell an asset quickly and in large volume without substantially affecting the asset's price.

Local Agency Investment Fund (LAIF): The California pool of local agency assets, which is managed by the State Treasurer. Limits apply to each agency's deposit of general fund reserves, however, no limits on amount of deposit apply to bond proceeds. Funds in this pool are considered very liquid.

Market value: Current market price of a security as indicated by the latest trade recorded.

Mark to market: The adjustment of the valuation of a security or portfolio to reflect current market values.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Money market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances) are issued and traded.

Mutual funds: An investment company that pools money and can invest in a variety of securities, including fixed income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by SEC disclosure guidelines.

Negotiable certificates of deposit: A large denomination time deposit with a specific maturity evidenced by a certificate. These are traded like other fixed income securities.

Net asset value: The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of share outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.

Nationally Recognized Statistical Rating Organization (NRSO): Currently, there are three top nationally recognized rating services: Moody's Investors Service, Inc., Standard & Poor's Corporation, and Fitch Investor's Services, Inc. These organizations provide ratings on a variety of categories and sectors at different rating scales to indicate financial strengths.

Note: A written promise to pay a specified amount to a certain entity on demand or on a specified date.

Par value: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in \$1,000 increments per bond.

Portfolio: A collection of securities held by an investor.

Premium: The amount by which a bond sells above its face (par) value.

Prime rate: A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are tied in to this rate.

Rate of return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Risk: Degree of uncertainty of return on an asset.

Safekeeping: A service rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Secondary market: Exchanges and over-the counter markets where securities are bought and sold subsequent to original issuance.

Securities and Exchange Commission (SEC): The Federal Agency created by Congress to protect investors in security transactions by supervising and regulating the securities industry.

Settlement date: The date on which a trade is cleared by delivery of securities against funds.

Total return: The sum of all investment income plus changes in the capital value of the portfolio.

Treasury bills: A non-interest bearing discount short-term security issued by the U.S. Treasury to finance national debt. Bills are issued with original maturities of 13 weeks, 26 weeks and 52 weeks.

Treasury bonds: Interest bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two (2) to ten (10) years.

Trustee, trust company, or trust department of a bank: A financial institution with trust powers that act in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

Weighted average maturity: The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

Yield: The rate of annual income return on an investment, expressed as a percentage.