**RESOLUTION NO. 1120-22**

**RESOLUTION OF THE MOJAVE WATER AGENCY BOARD OF DIRECTORS ESTABLISHING THE STATEMENT OF INVESTMENT POLICY FOR FISCAL YEAR 2022/2023, RESCINDING RESOLUTION NO.1098-21**

WHEREAS, the Mojave Water Agency, under Government Code Section 53646 must comply with current State legislative changes; and

WHEREAS, the Mojave Water Agency's Chief Financial Officer has conducted and completed a review for compliance with State legislative changes that have occurred since the policy's last adoption; and

WHEREAS, the statement of investment policy has been modeled after certification guidelines as set by the Municipal Treasurers Association Model Investment Policy Program, assuring compliance with current State legislation while providing a management tool to implement future investment decisions by the agency,

NOW, THEREFORE, BE IT RESOLVED THAT the Mojave Water Agency,as set forth in the attached Statement of Investment Policy, does hereby adopt asthe Investment Policy for public funds held by and entrusted to the Mojave Water Agency through its elected Board of Directors and employees.

ADOPTED this 12th day of May 2022.

Jeanette Hayhurst, President

ATTEST:

Michael Limbaugh, Secretary

# STATEMENT OF INVESTMENT POLICY

## *Fiscal Year 2022-2023*

# *STATEMENT OF INVESTMENT POLICY*

## I. POLICY

This Statement of Investment Policy, while conforming to all applicable statutes at the time of adoption, is intended to provide guidelines under the "prudent investor" rule for the investment of public funds and outline the policies for maximizing the effectiveness and efficiency of the Mojave Water Agency's ("Agency") cash management system. The goal is twofold; one is to enhance the economic status of the Agency while preservingits capital resources, the second is to provide guidelines for authorized investments.

## II. SCOPE

The Chief Financial Officer/Treasurer is authorized to invest public funds in accordance with California Government Code (CGC) Sections 53600 et seq. and 5922 (d). This Investment Policy applies to all financial assets and investment activities of the Mojave Water Agency and includes, but is not limited to, the following funds:

- ☞ General Fund
- ☞ State Water Project Funds
- ☞ Improvement District "M" Funds
- ☞ Capital Project Funds
- ☞ Watermaster Funds
- ☞ Any new fund, unless specifically exempted

This policy, however; specifically excludes employees' retirement, pension, and deferred compensation funds. Additionally, monies held by a trustee or fiscal agent shall be governed by CGC Sections 53601 (1) and 5922 (d).

In accordance with California Government Code listed above, the "Total Portfolio" includes all investments and deposits including funds in any money market accounts and governmental pools such as LAIF. Any percentage limitations are deemed to be calculated on the "Total Portfolio" and are measured based on the cost of the investment at the time of purchase.

## III. PRUDENCE

All monies entrusted to the Chief Financial Officer/Treasurer will be pooled in an actively managed portfolio. The Agency shall participate in standards within the content of the standard as set forth in CGC Section 53600.3, which states in part:

"When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds; a trustee shall act with care, skill, and prudence and diligence under the circumstances then prevailing that a prudent investor acting in 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."

Section 27000.3 of the government code declares each person, treasurer, or governing body authorized to make investment decisions on behalf of local agencies to be a *trustee* and therefore a *fiduciary* subject to the *prudent investor standard.* These persons shall act with care, skill, and diligence under the circumstances then prevailing when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. Section 27000.5 further stipulates that the primary objective of any person investing funds is to safeguard principal; secondly, to meet liquidity needs; and lastly, to achievea return or yield on invested funds.

## IV. OBJECTIVE

The Agency's cash management system is designed to monitor and forecast expenditures and revenues, thus enabling the Agency to invest funds to the fullest extentpossible. The Agency attempts to obtain the highest yield available, while investments meet the criteria established for safety, liquidity, and yield in that order of priority.

### A. SAFETY

Safety of principal is the foremost objective of the Agency. Each investment transaction shall seek to ensure capital losses are avoided, whether from securities default, rating downgrades, broker-dealer defaults, or erosion of market value. The Agency shall seek the preservation of capital by mitigating two types of risk: credit risk and market risk.

1. **Credit risk** - is the risk of loss due to failure of the issuer and is mitigated by investing in safe securities and diversifying the investment portfolio so the failure of any one issuer would not materially affect the cash flow of the Agency. Credit criteria shall apply as of trade date. All credit ratings shall be monitored, and investments downgraded below minimum rating shall be reported to the Personnel, Finance, Security and Technology Committee with an outline of the action taken.

2. **Market risk** - is the risk of market value fluctuations due to changes in the general level of interest rates and shall be mitigated by limiting the average final maturity of the Agency's investment portfolio to three and one-half years, and the maximum maturity of any one security to five years. Market risk shall also be mitigated by structuring the portfolio so maturing securities match cash outflows, eliminating the need to sell securities prior to their maturity and to avoid taking positions in securities for the purpose of selling those securities within a short period of time in order to realize a short-term profit. It is recognized that within a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall return on the investment.

### B. LIQUIDITY

The Agency's investment portfolio will remain satisfactorily liquid to enable the Agency to meet all anticipated and operating cash flow requirements.

### C. RETURN ON INVESTMENTS

The Agency's investment portfolio shall be designed to attain a market rate of return throughout economic cycles. Whenever possible with respect to budgetary and cash flow requirements, and consistent with risk limitations and prudent investment principles, the Chief Financial Officer/Treasurer shall seek to augment returns above the market rate of return.

## V. MAXIMUM MATURITIES

The Agency will match its investments with anticipated cash flow requirements. Per California Government Code Sections 53601 et seq., maximum maturities shall not exceed five (5) years. The average final maturity of funds should not exceed 1,275 days (3.5 years), and the cash flow requirements shall prevail at all times.

## VI. PERFORMANCE STANDARDS

The Agency's investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the Agency's investment risk constraints and cash flow requirements.

## VII. DELEGATION & GRANTS OF AUTHORITY

Management responsibility for the investment program is delegated to the Chief Financial Officer/Treasurer, under direction of the General Manager, who shall establish written procedures and policies for the operation of the investment program consistent with this Investment Policy.

No person shall engage in an investment transaction except as provided under the terms of this policy and procedures established by the Chief Financial Officer/Treasurer and authorized by the General Manager. The Chief Financial Officer/Treasurer shall establish a series of internal accounting controls to regulate the activities of subordinate representatives.

In the absence of the Chief Financial Officer/Treasurer, the only authority to direct investment transactions affecting Agency monies will be restricted to the General Manager as to maturity, investment instrument, and dollar size of the investment.

## VIII. INVESTMENT COMMITTEE

The Agency's Board of Directors, as elected by the people, shall act as the investment committee to provide general oversight and guidance concerning the investment policy related to the management of the Agency's investment pool. The committee shall meet at least quarterly during one of the Board's regularly scheduled monthly meetings to review the Investment Report.

## IX. ETHICS & CONFLICT OF INTEREST

The Chief Financial Officer/Treasurer and all investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The Chief Financial Officer/Treasurer and all investment personnel shall disclose to the Agency Attorney any material financial interests in financial institutions which conduct business within the jurisdiction, and shall disclose any material financial investment positions which could be related in a conflicting manner to the performance of the Agency's investment portfolio.

The Chief Financial Officer/Treasurer shall complete on an annual basis, State of California Form 721, Statement of Economic Interests Disclosure.

## X. SAFEKEEPING & CUSTODY AGREEMENTS

To protect against potential losses caused by collapse of individual securities dealers, all securities owned by the Agency shall be kept in safekeeping by a third- party bank trust department, acting as agent for the Agency under the terms of a custody agreement executed by the bank and the Agency. All securities will be received and delivered using standard delivery versus payment procedures with the Agency's custodial bank and evidenced by safekeeping receipts. Custodial statements are reconciled to transaction schedules by a knowledgeable designated finance staff representative, on a monthly basis.

## XI. INTERNAL CONTROLS

Separation of duties among the employees involved in investment activities is designed to provide an ongoing internal review to prevent the potential for converting assets or concealing transactions.

Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliations are conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts on a monthly basis.

An independent analysis by an external auditor shall be conducted annually to review internal control, account activity, and compliance with policies and procedures.

## XII. FINANCIAL REPORTING

Under provision of Section 53646 of the California Government Code, the Chief Financial Officer/Treasurer shall render at least quarterly, an Investment Report to the Agency's Board. The report shall provide the type of investment, financial institution fromwhich the investment was purchased, the date of maturity, the date upon which the investment becomes subject to redemption provisions, amount (to include both par and book value) of the investment, and the current market value of all investments. The report shall also include the source of the market value. Additionally, the report shallalso include the rate of interest and other data so required by the Agency Board or by amendment to the above section of California Government Code and its successors. The report shall include a statement denoting the Agency's ability to meet its expenditurerequirements for the following six-month period, or an explanation as to why sufficient monies will not be available. Additionally, the Chief Financial Officer/Treasurer shall state whether the Agency is in compliance with its Investment Policy and shall sign the Investment Report.

## XIII. AUTHORIZED FINANCIAL DEALERS & INSTITUTIONS

The Agency shall transact business only with banks, savings and loan institutions, and registered investment securities dealers, managers, and advisors. The dealers should either be primary dealers authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York, or regional dealers qualifying under the Securities and Exchange Commission Rule 15C3-1.

The Agency may engage the services of investment advisory firms to assist in the management of the portfolio and investment advisors may utilize their own list of approved Broker/Dealers. Such Broker/Dealers will comply with the selection criteria above and the list of approved firms shall be provided to the Agency on an annual basis or upon request.

The Chief Financial Officer/Treasurer shall send a copy of the current Statement of Investment Policy to all dealers approved to do business with the Mojave Water Agency. External investment advisors shall attest in writing that they have received, read and agree to comply with this policy. In the event that an external investment advisor is not used in the process of recommending a particular transaction in the portfolio(s), authorized dealers shall attest in writing that they have received, read and agree to comply with this Policy.

The Chief Financial Officer/Treasurer shall examine all financial institutions that wish to perform business with the Agency. Any financial institution utilized shall be satisfactorily capitalized; market makers in securities appropriate to the Agency's financial investment universe and agree to comply with the conditions set forth in the Agency's Statement of Investment Policy.

## XIV. COLLATERAL REQUIREMENTS

Collateralization is required for investments of public deposits in Certificates of Deposits (in excess of the FDIC insured amount) and all Repurchase Agreements. In order to reduce market risk, the collateral level will be at least 110% of market value of principal and accrued interest of eligible securities for Certificate of Deposit. The percentage of collateralization on repurchase agreements shall adhere to CGC Section 53601 (i) (2).

In order to conform with provisions of the Federal Bankruptcy Code, which provides for the liquidation of securities held as collateral for Repurchase Agreements, the only securities acceptable as collateral shall be eligible Negotiable Certificates of Deposit, eligible Banker's Acceptances, or securities that are fully guaranteed as to principal and interest by the United States or by any agency of the United States government. All securities held as collateral shall have a maximum maturity of five (5) years.

## XV. AUTHORIZED & ACCEPTABLE INVESTMENTS

The Mojave Water Agency is subject to California Government Code, Section 53601 et seq.

The following summary of maximum percentage limits by investment type is established for the Agency's total pooled funds portfolio:

| | | STATE CODE | | | AGENCY POLICY | | |
|---|---|---|---|---|---|---|---|
| CGC SECTION | Investment Type | Max Matrty | Auth limit (%) | Reqd Rating | Max Matrty | Auth limit(%) | Reqd Rating |
| 53601 (a) | Local Agency Bonds | 5 yrs | None | None | 5 yrs | 10% | None |
| 53601 (b) | US Treasury bills, Notes or Bonds | 5 yrs | None | None | 5 yrs | None | None |
| 53601 (c) | State Registered Warrants, Notes or Bonds | 5 yrs | None | None | 5 yrs | 10% | None |
| 53601 (d) | Notes & Bonds of State agencies | 5 yrs | None | None | 5 yrs | None | None |
| 53601 (e) | Notes & Bonds of other Local California agencies | 5 yrs | None | None | 5 yrs | None | None |
| 53601 (f) | U. S. Agencies | 5 yrs | None | None | 5 yrs | None | None |
| 53601 (g) | Bankers Acceptances (1) | 180 days | 40% | None | 180 days | 40% | None |
| 53601 (h) | Prime Commercial Paper (2) | 270 days | 10%/25% | “AI/PI” | 270 days | 10%/25% | “AI/PI” |
| 53601 (i) | Negotiable Certificates of Deposit (3) | 5 yrs | 30% | None | 5 yrs | 15% | None |
| 53601 (j) | Repurchase Agreements* | 1 yr | None | None | 1 yr | None | None |
| 53601 (j) | Reverse Repurchase Agrmts* | 92 days | 20% | None | 92 days | 20% | None |
| 53601 (k) | Medium Term Corporate Notes | 5 yrs | 30% | “A” | 5 yrs | 30%*** | “””A” |
| 53601 (l) | Money Market Mutual Funds& Mutual Funds** | N/A | 10/20% | Multiple**** | 90 days | 10/20% | 2-AAA |
| 53601 (n) | Collateralized Bank Deposits | 5 yrs | None | None | 5 yrs | None | None |
| 53601 (o) | Mortgage Pass-Thru Securities | 5 yrs | 20% | “AA” | 5 yrs | 20% | AAA |
| 16429.1 | Local Agency Inv. Fund (LAIF) | N/A | $75m in 2020 | None | N/A | Discretion of the StateTreasurer | None |
| 53601 (p) | County Pooled Inv. Funds | N/A | None | None | N/A | None | None |

* See California Government Code Section 53601 (j) for limits on the use of repurchase and reverse repurchase Agreements.

** Mutual Funds maturity may be defined as the weighted average maturity; money market mutual funds must have an average maturity of 90 days or less, per SEC regulations. No more than 10% of the Agency’s total portfolio shall be invested in any one mutual fund.

*** The 30% authorized limit on medium term corporate notes is limited to the managed portfolio only, not the Agency’s total pooled funds portfolio.

****A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years experience investing in money market instruments with assets under management in excess of $500 million.

(1) No more than 5% of surplus funds may be invested in Bankers Acceptances of any one commercial bank.

(2) Commercial paper issuers must be organized and operating within U. S. and have total assets in excess of $500 million, and have “A” or higher rating for issuer’s debt, other than commercial paper, by Moody’s or Standard and Poor’;s. Purchases may not exceed 10% of outstanding paper of an issuing corporation. No more than 5% of the Agency’s total portfolio shall be invested in the commercial paper of any one issuer.

(3) Prohibited if the CD’s are issued by a state or federal credit union if a member of the legislative body or any person with investment decision making authority also serves on the Board of Directors, or any committee appointed by the Board of Directors, or the credit union committee or the supervisory committee of the state or federal credit union issuing the negotiable CD’s.

# XVI. EXPLANATION OF INVESTMENT TYPES

## A. STATE AND LOCAL AGENCIES

***Definition:*** These are bonds, notes, warrants or other evidences of indebtedness of any local or State agency, including a District's own bonds, within the State of California. This includes bonds payable solely out of the revenues from a revenue producing property owned, controlled or operated by the local or State agency, or by a department, board, agency, or authority of the local agency or State.

***Legal Authority:*** Section 53601 (a,c,d,e) of the Government Code authorizes local and State agencies to purchase these bonds with no limitations as to the amount that can be owned.

## B. U. S. TREASURIES

***Definition:*** These are instruments in which the full faith and credit of the United States Government is pledged. They are designated as Bills, Notes, or Bonds, depending on their maturity.

***Legal Authority:*** Section 53601(b) of the Government Code authorizes local agencies to purchase U. S. Treasuries with no limitations as to the amount that can be owned of each.

## C. U. S. Agencies

***Definition:*** This category includes securities issued by federally owned or sponsored agencies that have the backing of the full faith and credit of the Federal Government. These securities are very liquid and marketable and they offer a wide range of available maturities.

***Legal Authority:*** Section 53601 (f) of the Government Code allows public agencies to invest in obligations issued by federally sponsored agencies.

## D. U.S. Instrumentality

***Definition:*** Government sponsored enterprise debentures, discount notes, callable securities, step-up securities, and mortgage-backed securities with a final maturity not exceeding five years from the date of trade settlement. There is no limitation as to the percentage of the portfolio that can be invested in this category.

***Legal Authority:*** Section 53601 (f) of the Government Code allows public agencies to invest in obligations issued by federally sponsored instrumentalities.

## E. BANKERS' ACCEPTANCE

***Definition:*** A Bankers' Acceptance (BA) is a time draft drawn on and accepted by a bank for payment of the shipment or storage of merchandise. The initial obligation of payment rests with the drawer, but the bank substitutes its credit standing for that of the borrower and assumes the obligation to pay face value at maturity.

***Legal Authority:*** Section 53601 (g) limits investments in this category to those Bankers' Acceptances, which are eligible for purchase by the Federal Reserve System and not exceeding 180 days maturity. In addition, no more than 40% of the Agency's surplus funds may be invested in BA's, and no more than 5% may be invested in any one bank.

## F. COMMERCIAL PAPER

***Definition:*** Commercial paper consists of promissory notes of large business concerns of high credit standing, usually maturing in four to six months. Large companies raise short-term capital needs with this type of instrument.

***Legal Authority:*** Section 53601 (h) of the Government Code allows public agencies to invest in only "prime" quality Commercial Paper issued with the highest rating provided by Moody's Investors' Service, Inc. or Standard and Poor's Corporation. Eligible paper is further limited to issuing corporations: (1) organized and operating within the United States, (2) having total assets in excess of $500 million dollars and (3) having an "A" or highest rating for the issuer's debt, other than commercial paper, if any, as provided for by Moody's or Standard and Poor's. Commercial Paper may not exceed 270 days maturity and must not represent more than 10% of the outstanding paper of the issuing corporation. In addition, the amount invested in this type of instrument cannot exceed 25% of the total funds available to the Agency. No more than 5% of the Agency's total portfolio shall be invested in the commercial paperof any one issuer.

## G. NEGOTIABLE CERTIFICATES OF DEPOSIT

***Definition:*** A CD is a negotiable instrument evidencing a time deposit with a bank at a fixed rate of interest for a fixed period. CD's of this type are not collateralized and should be considered an unsecured deposit.

***Legal Authority:*** Section 53601 (i) of the Government Code allows public agencies to invest a maximum of 30% of surplus funds in the CD's of State or Federal associations, credit unions or State licensed foreign banks. Section 53601 (h) also stipulates that these investments are not allowed if any one on the legislative body, its officers or staff with oversight or signing authority also serves on its Board of Directors or a committee of the credit union. Section 53638 stipulates that negotiable CD's may not exceed the shareholder's equity of the bank, and that the amount of CD's purchased from a State or Federal association may not exceed the total of the net worth of that association unless the purchase amount is less than $500,000 and the deposits are insured or secured as required by law.

## H. REPURCHASE AGREEMENTS

***Definition:*** A Repurchase Agreement (Repo) involves two simultaneous transactions. One transaction involves the sale of securities (collateral) by a borrower of funds, typically a bank or broker/dealer in governments or agencies, to a lender of funds. The lender can be any investor with cash to invest. The second transaction is the commitment by the borrower to repurchase the securities at the same price plus a predetermined amount of interest on an agreed future date.

***Legal Authority:*** Section 53601 (j) of the Government Code permits Repos in any security that is allowed for purchase as defined in that same section of the Code and for a term of one year or less. It also places restrictions on the transactions. The value of underlying securities must be at least 102% of the funds borrowed against those securities and transactions must be made only with primary dealers of the Federal Reserve Bank of New York. Subject to fluctuations in the market, if the value falls below 102%, the value must be brought back up by the next business day.

## I. MEDIUM TERM CORPORATE OR BANK NOTES

***Definition:*** A Medium Term Note is a promise to pay, issued by a corporation or a bank at a fixed interest rate for a fixed period of nine months to fifteen years. Most are unsecured, although some are collateralized or carry other credit enhancements such as letters of credit.

***Legal Authority:*** Section 53601 (k) of the Government Code allows public agencies to invest a maximum of 30% of surplus funds in the MTN's for a maximum of five years maturity. The notes must be issued by an U. S. Corporation or by a depository institution licensed by the United State or any State. To minimize risk, the notes must be rated at least "" "A" or better by at least one nationally recognized rating service, like Moody's Investors' Service, Inc. or Standard and Poor's Corporation, at the time of purchase. No more than 5% of the Agency's portfolio shall be invested in the medium term notes of any one issuer.

## J. DESIGNATED MUTUAL FUNDS

***Definition:*** These are companies that are defined under IRS Code 26 U.S.C. 851, which are typically mutual funds that make diversified investments for their shareholders.

***Legal Authority:*** Section 53601 (l) of the Government Code authorizes investments in mutual funds as long as the mutual companies are investing only in those securities and obligations otherwise authorized for direct investment by public agencies. Additionally, these companies must have attained the highest rating provided by at least two of the three largest nationally recognized rating services, or have an investment advisor registered with the SEC with assets under management in excess of $500 million and with at least five (5) years experience investing in statutorily permitted securities. Investments in this category are also limited to 20% of total funds available. No more than 10% of the Agency's total portfolio shall be invested in any one mutual fund.

## K. NON-NEGOTIABLE CERTIFICATES OF DEPOSIT (CD)

***Definition:*** A Non-negotiable CD is an instrument evidencing a deposit with a financial institution for a fixed period of time and normally for a fixed rate of interest. They can be collateralized with securities or mortgages or, if issued in denominations of $100,000 or less, they can be insured by the Federal Deposit Insurance Corporation if issued by a bank, or the Federal Savings and Loan Insurance Corporation if issued by a savings and loan association.

***Legal Authority:*** Section 53601 (n) of the Government Code allows public agencies to invest in Non-negotiable CD's of banks or savings and loan associations with no limitations.

**L. <u>MORTGAGE BACKED SECURITIES</u>**

***Definition:*** Mortgage Backed Securities are issued by U. S. Government agencies and are collateralized by home loans which create mortgage pools which are purchased and serve as payment pass-through obligations.

***Legal Authority:*** Section 53601 (o) of the Government Code allows public agencies to invest in mortgage pass-through and mortgage backed securities issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "AA" or better by a nationally recognized rating service. Purchases of CMO securities are allowed for the Agency; they must carry a rating category of "AAA" or better, may not exceed 20% of the Agency's surplus money that may be invested, and the term may not exceed five years.

**M. <u>LOCAL AGENCY INVESTMENT FUND (LAIF)</u>**

***Definition:*** The Local Agency Investment Fund (LAIF) is a special fund in the State of California Treasury created by law. The law permits local government agencies (cities, counties, and special districts) to pool idle monies in this fund and utilize the trained personnel in the State Treasurer's Office for its investment.

***Legal Authority:*** *Section 16429.1 of the Government Code authorizes local agencies to invest through LAIF to a maximum per agency that is determined by the State Treasurer based on size of the LAIF portfolio.*

**N. <u>County Pooled Investment Funds</u>**

***Definition:*** Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (o), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria: (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission. (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (o), inclusive. (3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

***Legal Authority:*** Section: Section 53601(p) of the government code allows the Agency to invest in County Pooled Investment Funds if the pool meets the requirements of the joint powers authority.

## XVII. PROHIBITED INVESTMENTS

In accordance with CGC Section 53601.6, the Agency will not invest any funds in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages. The Agency may hold previously permitted but currently prohibited investments until their maturity dates.

## XVIII. LEGISLATIVE CHANGES

Any State of California legislative actions that further restricts allowable maturities, investment type, or percentage allocations will be incorporated into the Mojave Water Agency's Investment Policy and supersede any and all previous applicable language.

## XIX. INTEREST EARNINGS

All monies earned and collected from investments authorized in this policy shall be allocated on a quarterly basis to various fund accounts where required by law based on the cash balance in each fund as a percentage of the entire pooled portfolio. However, accounts requiring full liquidity will receive their proportional distribution of monies based on the lower of pooled or overnight rates.

## XX. LIMITING MARKET VALUE EROSION

The longer the maturity of securities, the greater their market price volatility. Therefore, it is the general policy of the Agency to limit the potential effects from erosion in market values by adhering to the following guidelines:

A. All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investments.

## XXI. PORTFOLIO MANAGEMENT ACTIVITY

The investment program shall seek to augment returns consistent with the intent of this policy, identified risk limitations, and prudent investment principles. The objectives will be achieved by use of the following strategies:

**A. ACTIVE PORTFOLIO MANAGEMENT**

Through active fund and cash flow management taking advantage of current economic and interest rate trends, the portfolio yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the total portfolio (not to exceed 1,275 days).

**B. PORTFOLIO MATURITY MANAGEMENT**

When structuring the maturity composition of the portfolio, the Agency shall evaluate current and expected interest rate yields and necessary cash flow requirements. It is recognized that in normal market conditions longer maturities produce higher yields. However, the securities with longer maturities also experience greater price fluctuations when the level of interest rates change.

### C. SECURITY SWAPS

The Agency may take advantage of security swap opportunities to improve the overall portfolio yield. A swap, which improves the portfolio yield, may be selected even if the transactions result in an accounting loss. Documentation for swaps willbe included in the Agency's permanent investment file documents.

### D. COMPETITIVE BIDDING

It is the policy of the Agency to require competitive bidding for investment transactions that are not classified as "new issue" securities. For the purchase of non-"new issue" securities and the sale of all securities, at least three bidders must be contacted. Competitive bidding for security swaps is also suggested, however; it is understood that certain time constraints and broker portfolio limitations exist which would not accommodate the competitive bidding process. If a time or portfolio constraining condition exists, the pricing of the swap should be verified to current market conditions and documented for auditing purposes.

## XXII. INVESTMENT POLICY REVIEW

This Statement of Investment Policy is intended to conform to all applicable statutes at the time of adoption. The Investment Policy shall be reviewed and approved annually by the Agency Board at a public meeting to ensure consistency with the overall objectivesof the preservation of capital, liquidity, and return of the portfolio. The Investment Policy shall also be reviewed to ensure its compliance and relevance to the current law, financial and economic trends, and to meet the cash flow requirements of the Agency. Investment operations are reviewed monthly by the Finance Department during the reconciliation process of investment transactions to the third party statements and through the proof of cash process. The investment portfolio is audited annually by the Agency's independent auditors. The audit shall include a review for compliance with the Agency's Statement of Investment Policy.

## XXIII. INDEMNIFICATION OF INVESTMENT OFFICIALS

Any investment designee, as authorized in Section VII (Delegation & Grants of Authority), exercising his or her assigned authority with due diligence and prudence and in accordance with the Agency's Investment Policy, will not be held personally liable for any individual investment losses or for total portfolio losses.

## XXIV. GLOSSARY OF TERMS

**ACCRUED INTEREST**: Interest earned but not yet received.

**ACTIVE DEPOSITS:** Funds which are immediately required for disbursement.

**AGENCIES:** Securities issued by any of several U.S. Government Agencies including, but not limited to the Federal Home Loan Bank (FHLB), the Federal Farm Credit Bank (FFCB), and the Federal National Mortgage Association (FNMA or 'Fannie Mae").

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

**ASKED PRICE:** The price at which securities are offered.

**BANKERS' ACCEPTANCE (BA):** A draft or 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 one-hundredth of one percent (.O1).

**BID PRICE:** The price offered for securities.

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

**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 broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Certificate of Deposit may be issued in either negotiable or non-negotiable form. Non-negotiable certificates cannot be resold on the secondary market and may face penalties for early redemption whereas a negotiable CD may be resold.

**COLLATERAL:** Securities evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COUPON:** (a) the annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual financial report for the city. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

**CONSTANT MATURITY TREASURY (CMT):** An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.

**CREDIT ANALYSIS:** A critical review and appraisal of the economic and financial condition, or of the ability to meet debt obligations.

**CURRENT YIELD:** The interest paid on an investment expressed as a percentage of the current price of the security.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for their own account.

**DEBENTURE**: A bond secured only by the general credit of the issuer.

**DERIVATIVE:** A financial instrument created from, or whose value depends on (is derived from) the value of one or more underlying assets or indexes of asset value.

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

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills.

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

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal government set up to supply credit to various classes of instruments and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

**FEDERAL FUNDS RATE**: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, DC, 12 Regional Banks, and about 5,700 commercial banks that are members of the system.

**FEDERAL DEPOSIT INSURANCE COPORATION (FDIC**): A Federal Agency that insures bank deposits currently up to $100,000 per deposit.

**FEDERAL HOME LOAN BANKS (FHLB):** The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role corresponding to that played by the Federal Reserve Banks with respect to member commercial banks.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):** Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA, or FMHC mortgages. The term pass-throughs are often used to describe Ginnie Maes.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

**LOCAL AGENCY INVESTMENT FUND (LAIF):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**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, banker's acceptances, etc.) are issued and traded.

**OFFER:** The price asked by a seller of securities.

**PORTFOLIO:** Collection of securities held by an investor.

**PRUDENT INVESTOR RULE:** An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state (the so called legal list). In other states the trustee may invest in a security if it is one which would be bought by a prudent investor of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**PRIMARY DEALER:** A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks, and a few regulated firms.

**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.

**QUALIFIED PUBLIC DEPOSITORIES:** A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

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

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

**SECURITIES & EXCHANGE COMMISSION:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**TREASURY BILLS:** Short-term direct obligations of the U.S. Government to finance the national debt issued with original maturities of three months, six months, or one year; sold in minimum amounts of $10,000 in multiples of $5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

**TREASURY BOND:** Long-term U.S. Treasury securities having initial maturities of more than ten years.

**TREASURY NOTES:** Intermediate term coupon bearing U.S. Treasury securities having initial maturities from one to ten years.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or

**YIELD TO MATURITY:** is the current income yield minus any premium above par or plus any discount from par in purchase price with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

**YIELD CURVE:** The yield on bonds, notes, or bills of the same type and credit risk at a specific date for maturities up to thirty years.