



MARIN MUNICIPAL WATER DISTRICT

BOARD POLICY No. 33

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SUBJECT: INVESTMENT POLICY

I. Introduction

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities.

The investment policies and practices of the Marin Municipal Water District ("District") are based on State law and prudent money management. All funds will be invested in accordance with the District's Investment Policy and the authority governing investments for local agencies as set forth in the California Government Code, §53601 through §53659.

II. Scope

It is intended that this policy cover all funds and investment activities of the District, except investments governed by employment retirement funds and bond documents. The provisions of relevant bond documents will restrict the investment of bond proceeds.

III. Prudence

Investments shall be made with judgment and care - under circumstances then prevailing - 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.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. All persons investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds shall act with care, skill, prudence and diligence under the circumstances then prevailing 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 District.

IV. Objectives

The primary objectives, in priority order, of the District's investment activities shall be:

1. **Safety.** Safety of principal is the foremost objective of the investment program. The District's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. The District shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.
2. **Liquidity.** The District's investment portfolio will remain sufficiently liquid to enable the District to meet its cash flow requirements.
3. **Return on Investment.** The District's investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.
4. **Public Trust.** All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

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

V. Delegation of Authority

The management and oversight responsibility for the investment program is hereby delegated to the ASD (Administrative Services Division) Manager/Treasurer who shall monitor and review all investments for consistency with this investment policy. This delegation of authority shall remain in place until revoked by the Board of Directors. The ASD Manager/Treasurer may delegate the day-to-day operations of investing to his/her designee(s), but not the responsibility for the overall investment program. No person may engage in an investment transaction except as provided under the limits of this policy.

VI. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

VII. Selection of Financial Institutions and Broker/Dealers

The ASD Manager/Treasurer shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes in the State of California, and who have proof of National Association of Security Dealers certification. It shall be the policy of the District to purchase securities only from authorized institutions or firms. All authorized firms must also provide certification that they have received and read the District's Investment Policy.

VIII. Permitted Investment Instruments

1. Direct obligations for which the full faith and credit of the United States Government is pledged for the payment of principal and interest.
2. Obligations issued by Agencies or Instrumentalities of the United States Government.
3. Repurchase Agreements used solely as short-term investments not to exceed 90 days.
 - a. The following collateral restrictions will be observed: Only United States Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the District's custodian bank vs. payment. The market value of securities that underlay a Repurchase Agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be reviewed on a regular basis and adjusted no less than quarterly. Collateral shall not include strips, zero-coupon instruments or instruments with maturities in excess of five years. The right of substitution will be granted, provided that permissible collateral is maintained.
4. Banker's 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 Moody's Investors Services or by Standard & Poor's Corporation.
 - a. Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the District's surplus money. However, no more than 30% or \$2,000,000 of the District's surplus funds, whichever is less, may be invested in the Banker's Acceptance of any one commercial bank.

5. Commercial paper issued by an entity meeting the following conditions in Option 1 or Option 2 below:

Option 1:

1. Is organized and operating in the United States as a general corporation and has total assets in excess of \$500 million.
2. Has debt other than commercial paper, if any, that is rated “A” or higher by a nationally recognized rating agency.

Option 2:

1. Is organized within the United States as a special purpose corporation, trust or limited liability company.
 2. Has program-wide credit enhancements including, but not limited to, over-collateralization, letters of credit or surety bond.
 3. Has commercial paper that is rated “A-1” or higher by a nationally recognized rating agency.
- a. Purchases of eligible commercial paper may not exceed 270 days to maturity nor represent more than 10 percent or \$1,000,000 from an issuing corporation, whichever is less.
- b. Purchases of commercial paper may not exceed 15 percent of the District's surplus money that may be invested.
6. Medium term corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium term corporate notes shall, at the time the note is purchased, be rated as follows:
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|-------------------|---|
| a. 1 year or less | A rating by two major rating agencies |
| 1 - 2 years | AA rating by at least one major rating agency |
| 2 - 4 years | AA rating by two major rating agencies |
| 4 - 5 years | AAA rating by two major rating agencies |
- b. Investments will be limited to a maximum of 30 percent of the District's portfolio.

7. Federal Deposit Insurance Company (FDIC) insured or fully collateralized time certificates of deposit in financial institutions located in California, including United States branches of foreign banks licensed to do business in California. The maximum maturity of a time deposit shall not exceed 180 days. All time deposits must be collateralized in accordance with California Government Code §53651 and §53652, either at 150 percent by promissory notes secured by first mortgages and first trust deeds upon improved residential property in California eligible under Section 53651(m) or 110 percent by eligible marketable securities listed in subsections (a) through (l), (n) and (o) of §53651, or 105% of letters of credit issued by the Federal Home Loan Bank of San Francisco per subsection (p) of §53651.
8. Negotiable certificates of deposit or deposit notes issued by a nationally or State chartered bank or a State or Federal savings and loan association or by a Federally licensed or State licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated "AA" or better by Moody's or Standard & Poor's.
 - a. Purchase of negotiable certificates of deposit may not exceed 20 percent of the District's surplus money.
9. State of California's Local Agency Investment Fund. Investment in LAIF may not exceed \$65 million per account.
10. Shares of beneficial interest issued by diversified management companies (Money Market Mutual Funds) investing in the securities and obligations authorized by sections (a) through (l) of California Government Code §53601. To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized rating services; or (2) have an investment advisor registered with the Securities and Exchange Commission with not less than five years experience investing in securities and obligations authorized by California Government Code §53601 and with assets under management in excess of \$500,000,000.

The purchase price of shares shall not exceed 10 percent of the District's surplus money and no more than 10 percent invested in shares of any one mutual fund.
11. Registered state warrants or treasury notes or bonds of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the state or by a department, board, agency, or authority of California.

12. Bonds, notes or warrants or other evidences of indebtedness of a local agency within the state of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the by the local agency, or by a department, board, agency, or authority of the local agency of California.

The following summary of maximum percentage limits, by instrument, are established for the District's total investment portfolio:

<u>Investment Type</u>	<u>Percentage</u>
Repurchase Agreements.....	0 to 10%
Local Agency Investment Fund	\$65,000,000 per account
U.S. Treasury Bonds/Notes/Bills	0 to 100%
U.S. Government Agency Obligations.....	0 to 100%
Banker's Acceptances	0 to 40%
Commercial Paper.....	0 to 15%
Negotiable Certificates of Deposit	0 to 20%
Time Certificates of Deposit	0 to 20%
Medium Term Corporate Notes.....	0 to 30%
Registered State Warrants or Local Agency Indebtedness	0 to 20%

IX. Safekeeping of Securities and Internal Controls

To protect against fraud, embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the District shall be held by an independent third party safekeeping institution, acting as agent for the District under the terms of a custody agreement or PSA agreement (repurchase agreement collateral). All trades executed by a dealer will settle on a delivery vs. payment ("DVP") basis to ensure that securities are deposited in the District safekeeping institution prior to the release of funds.

The safekeeping institution shall annually provide a copy of its most recent report on internal controls – Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011).

Securities held in custody for the District shall be monitored by the ASD Manager/Treasurer to verify investment holdings.

Management shall establish a system of internal controls, which shall be documented in writing and reviewed with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the District.

X. Maximum Maturity

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled to permit the District to meet all projected obligations.

The maximum maturity will not exceed five years.

XI. Ineligible Investments

Security types which are prohibited include, but are not limited to:

- (a) "Complex" derivative structures such as range notes, dual index notes, inverse floaters, leveraged or de-leveraged floating rate notes, or any other complex variable rate or structured note.
- (b) Interest only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.
- (c) Reverse Repurchase Agreements.

XII. Portfolio Adjustments

Portfolio percentage limitations for each investment category are applicable only at the date of purchase. Should an investment percentage limitation be exceeded due to an incident such as a fluctuation in portfolio size, the ASD Manager/Treasurer is not required to sell the affected securities.

Should a security held in the portfolio be downgraded below the minimum criteria included in this Investment Policy, a determination will be made by the ASD Manager/Treasurer whether to sell the investment. Any sale of an investment due to a downgrade will be done in a manner to minimize losses on sale of such

If a security is downgraded to a level that is less than investment grade (rating less than Ba1 or BB+), the ASD Manager/Treasurer shall sell such affected security immediately. If the immediate liquidation of the security is not in the best interest of the District, the ASD Manager/Treasurer, in consultation with an ad hoc committee made up of the General Manager and the Finance Committee President, may dispose of the security in an orderly and prudent manner considering the circumstances, under terms and conditions approved by the ad hoc committee.

The description and amounts of any securities downgraded below the District investment criteria are to be included in the monthly investment report.

XIII. Reporting Requirements

The ASD Manager/Treasurer shall render to the District Board a monthly investment report which shall include, at a minimum the following information for each individual investment:

Type of investment instrument (i.e., Treasury Bill, medium term note)

- Issuer name (i.e., General Electric)
- Purchase date (settlement date)
- Maturity date
- Par value
- Purchase price
- Current market value and the source of the valuation (quarterly)
- Overall portfolio yield based on cost

The monthly report also shall (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of the District's funds, investments or programs that are under the management of contracted parties, including lending programs, (iii) description of investments downgraded below the District's investment criteria or below investment grade and hold or sell status and (iv) include a statement denoting the ability of the District to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

This monthly report shall be submitted within 30 days following the end of the month.

The ASD Manager/Treasurer shall annually render to the Board a statement of investment policy, which the Board shall consider at a public meeting.

GLOSSARY OF TERMS

Bankers Acceptances. Are negotiable time drafts or bills of exchange drawn on and accepted by a commercial bank. Acceptance of the draft obligates the bank to pay the bearer the face amount of the draft at maturity. In addition to the guarantee by the accepting bank, the transaction is identified with a specific commodity. The sale of the underlying goods will generate the funds necessary to liquidate the indebtedness. Banker's Acceptances are usually created to finance the import and export of goods, the shipment of goods within the United States and the storage of readily marketable staple commodities. Banker's Acceptances are sold at a discount from par and the amount and maturity date are fixed. Bankers Acceptances have the backing of both the bank and the pledged commodities with no known principal loss in over 70 years. State law permits agencies to invest 40 percent of a portfolio and 30 percent with a single issuer in Bankers' Acceptances with a maximum maturity of 180 days.

Certificate of Deposit. A deposit insured up to \$250,000 by the FDIC, or collateralized at a minimum of 110 percent by the financial institution if over \$250,000, at a set rate for a specified period of time.

Collateral. Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Corporate Medium Term Notes. Are unsecured promissory notes issued by corporations operating within the United States. The notes are in the one-to-five year maturity range. Notes must have at least an "A" rating by a nationally recognized rating service. State law permits agencies to invest 30 percent of the total portfolio and 10 percent with a single issuer in corporate medium term notes with a maximum maturity of 5 years.

Commercial Paper. Is an unsecured promissory note of industrial corporations, utilities and bank holding companies having assets in excess of \$500 million and an "A" or higher rating for the issuer's debentures. Interest is discounted from par and calculated using the actual number of days on a 360-day year. The notes are in bearer form, mature from one to 180 days and generally start at \$100,000. There is a secondary market for commercial paper and an investor may sell them prior to maturity. Commercial paper is backed by unused lines of credit from major banks. State Code permits agencies to invest 25 percent and 10 percent with a single issuer in commercial paper with a maximum maturity of 270 days.

Credit Risk. Defined, as the risk of loss due to failure of the issuer of a security shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the District's capital base and cash flow.

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

Custody. A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment (DVP). Delivery of securities with a simultaneous exchange of money for the securities.

Fannie Mae. Trade name for the Federal National Mortgage Association (FNMA), a United States sponsored corporation.

Federal Reserve System. The central bank of the United States which consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

Federal Deposit Insurance Corporation (FDIC). Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently \$250,000) per account.

Freddie Mac. Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a United States sponsored corporation.

Ginnie Mae. Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the United States Government.

Interest Rate. The annual yield earned on an investment, expressed as a percentage.

Liquidity. Refers to the ability to rapidly convert an investment into cash.

Local Agency Investment Fund (LAIF) Demand Deposit. Established by the State to enable financial managers to place idle funds in a pool for investment. Each agency is currently limited by LAIF to an investment of \$50 million plus any bond proceeds.

Market Risk. Defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long-term securities for the sole purpose of short-term speculation.

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.

Portfolio. Collection of securities held by an investor.

Purchase Date. The date in which a security is purchased for settlement on that or a later date.

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.

Repurchase Agreement (REPO). Contractual arrangement between a financial institution or dealer and an investor. The investor puts up their funds for a certain number of days at a stated yield. In return, they take title to a given block of securities as collateral. At maturity, the securities are repurchased and the funds are repaid with interest.

Reverse Repurchase Agreement (Reverse REPO). A transaction where the seller (District) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

Sallie Mae. Trade name for the Student Loan Marketing Association (SLMA), a United States sponsored corporation.

Treasury Bills (T-Bills). United States Treasury Bills which are short-term, direct obligations of the United States Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; 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.

United States Government Agencies. Instruments issued by various United States Government Agencies most of which are secured only by the credit worthiness of the particular agency.