

Sacramento Suburban Water District

Investment Policy

Adopted: December 16, 2002

Revised: November 21, 2005, August 20, 2007; August 17, 2009, August 15, 2011

100.00 Investment Authority

In accordance with section 53600 et. seq. of the Government Code of the State of California (Government Code), the authority to invest public funds is expressly delegated to the Board of Directors for subsequent re-delegation to the Finance Director/District Treasurer. Investments by the Finance Director/District Treasurer, or his designee, pursuant to the delegation made by this Investment Policy are limited to those instruments described herein (the "Policy").

200.00 Statement of Objectives

In order of importance, four fundamental criteria will be followed in the investment program:

210.00 Safety of Principal

Investments will be undertaken in a manner which first seeks to ensure the preservation of capital in the portfolio. Each investment transaction will be entered into seeking quality in issuer and in underlying security or collateral. Market risk will be reduced by diversifying the portfolio, by limiting the average maturity of the portfolio, by limiting the maximum maturity of any one security and by performing cash flow analyses to avoid the need to sell securities prior to maturity.

220.00 Liquidity

Investments will be made with maturity dates compatible with cash flow requirements to permit conversion to cash without a significant loss in value.

230.00 Interest Rate Risk Hedging

The investment portfolio will be designed with the objective of mitigating interest rate risk that arises due to adjustable rate debt financing or other contractual arrangements, commensurate with the investment risk constraints and the cash flow characteristics of the portfolio.

240.00 Return on Investment

The investment portfolio will be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow characteristics of the portfolio.

300.00 Prudent Investor Standard

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing the District's funds, the Board and those to whom investment authority has been delegated 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 District, 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. This standard will be applied in all investment decisions, including those related to hedging interest rate risks associated with debt financing.

400.00 Portfolio Management

Any reference to the portfolio will mean the total of the cash and securities under management by the Finance Director/District Treasurer, excluding cash and securities held in escrow or in trust on behalf of the District. Any reference to Finance Director /District Treasurer herein will include his/her designee or designees (such as a professional portfolio manager or financial advisor.) The Finance Director /District Treasurer may invest in any security authorized for investment under this Policy, subject to the limitations described below:

410.00 Maturity Limitations

- a. With the exception of securities underlying repurchase agreements, mortgage obligations and asset backed securities, the Finance Director /District Treasurer is authorized to invest the District's fund balances to a maximum term of five years, unless a longer maturity would be warranted for interest rate risk hedging purposes. Investment of bond proceeds held by the bond Trustee such as bond reserve funds, construction funds or funds established for the refunding and defeasance of bonds shall be subject to the applicable provisions set forth in the bond agreements, rather than the provisions of Government Code.
- b. For certain instruments, the term of the investment is limited by market convention or as otherwise prescribed herein.

420.00 Purchase and Sale of Securities

- a. Information concerning investment opportunities and market developments will be gained by maintaining contact with the financial community together with

information provided by financial advisors to the District.

- b. The purchase of any investment other than those purchased directly from the issuer will be, to the extent possible, purchases from a firm designated as a Primary Dealer (dealers) by the Federal Reserve Bank of New York.
- c. All dealers will be required to provide confirmations of all purchases or sales directly to the Director of Finance/District Treasurer.
- d. Initially, and when there are material changes to this Policy, the Finance Director /District Treasurer will transmit a copy of the current Policy to its professional portfolio manager or financial advisor requiring them to return a signed statement indicating receipt and understanding of the Policy.
- e. When practicable, the Finance Director /District Treasurer will solicit more than one quotation on each trade. Investment trades will be awarded on a competitive bid basis.
- f. Prohibited investments include inverse floaters, range notes, interest only strips derived from a pool of mortgages (Collateralized Mortgage Obligations), and any security that could result in zero interest accrual if held to maturity. (Zero interest accrual means the security has the potential to realize zero earnings through its maturity.)

430.00 Exchange of Securities

An exchange of securities is a shift of assets from one instrument to another and may be done for a variety of reasons, such as for interest rate risk hedging purposes, to increase yield, lengthen or shorten maturities, to realize a profit or to increase investment quality. In no instance will an exchange be undertaken for speculative purposes. Exchanges, to the extent practicable, will be simultaneous (same day execution of sale and purchase).

440.00 Portfolio Adjustments

- a. Portfolio percentage limitations for each category of investment are applicable only at the date of purchase. Should an investment percentage of portfolio limitation be exceeded due to an incident such as a fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses.
- b. When no loss is indicated, the Finance Director/District Treasurer will consider restructuring the portfolio basing his/her decision in part on the expected length of time the portfolio will be imbalanced.
- c. In the event a security held by the District is subject to a ratings change that brings it below the minimum ratings specified in this Policy, the Finance Director/

District Treasurer shall notify the Board of the change. The course of action to be followed will be decided on a case-by-case basis, considering such factors as the reason for the ratings drop, prognosis for recovery or further ratings drops, and the market price of the security.

- d. The Finance Director/District Treasurer may at any time further restrict the securities approved for investment as deemed appropriate.

450.00 Safekeeping

- a. All securities transactions, including collateral, for repurchase agreements entered into by the District will be conducted on a delivery versus payment (DVP) basis.
- b. Securities will be held in safekeeping pursuant to a safekeeping agreement by an independent custodian, which does not act as a principal or secondary broker-dealer.
- c. All financial institutions which provide safekeeping services for the District will be required to provide reports or safekeeping receipts directly to the Director of Finance/District Treasurer to verify securities taken into their possession.
- d. A counter-party bank's trust department or separate safekeeping department may be used for physical delivery of a security, providing the security is held in the District's name.

500.00 Authorized Investments

The following are types of securities that may be purchased subject to the limitations specified. A summary of these security types and the percentage-of-portfolio limitations is shown in Appendix A.

501.00 U.S. Government, Agencies, and Government Sponsored Enterprises

- a. Investments in U.S. Treasury obligations will not be subject to any limitations. Purchases may be affected through the Federal Book Entry System which includes acceptance of a Federal Reserve receipt on behalf of the District.
- b. Investments in direct obligations of federal agencies guaranteed by the U.S. Government will not be subject to any limitations. (See Appendix B.)
- c. Investments in federal agency obligations not explicitly guaranteed by the U.S. Government will not be subject to any limitations. (See Appendix B.)
- d. Investments in government sponsored enterprise obligations not explicitly guaranteed by the U.S. Government will not be subject to any limitations. (See Appendix B.)

502.00 Bankers' Acceptances

Restrictions are as follows:

- a. Investments in prime bankers' acceptances will not exceed 40 percent of the portfolio in effect immediately after any such investment is made, unless necessary for interest rate risk hedging purposes.
- b. No more than 5 percent of the total portfolio may be invested in the securities of any one non-government issuer regardless of security type.
- c. Eligible bankers' acceptances will be rated in the highest short-term ratings category by a Nationally Recognized Statistical Rating Organization (NRSRO).
- d. The maximum maturity will be limited to 180 days.

503.00 Negotiable Certificates of Deposit

Restrictions are as follows:

- a. Investments in negotiable certificates of deposit will not exceed 30 percent of the total portfolio in effect immediately after any such investment is made.
- b. No more than 5 percent of the District's portfolio may be invested in the securities of any one non-government issuer regardless of security type.
- c. To be eligible, a certificate of deposit must be issued by a nationally or state-chartered bank, a state or federal savings and loan association or savings bank, or a state-licensed branch of a foreign bank.
- d. Eligible negotiable certificates of deposits will be rated A or better by at least one NRSRO.
- e. The investment will not exceed the shareholders' equity of any depository bank. For the purpose of this constraint, shareholders' equity will be deemed to include capital notes and debentures.
- f. The investment will not exceed the total of the net worth of any depository savings and loan association, except that investments up to a total of \$500,000 may be made to a savings and loan association without regard to the net worth of that depository, if such investments are insured or secured as required by law.
- g. The District's Board and the Finance Director/District Treasurer or other official of the District having legal custody of the moneys are prohibited from investing District funds, or funds in the custody of the District, in negotiable certificates of

deposit issued by a state or federal credit union if a member of the District's Board, or a person with investment decision making authority at the District also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

- h. The maximum maturity will be limited to five years.

504.00 Commercial Paper

Restrictions are as follows:

- a. Only commercial paper of prime quality of the highest ranking or of the highest letter and numerical rating, at the time of purchase, as provided by Moody's Investors Services or Standard & Poor's Corporation may be purchased.
- b. Investment of the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):
 - (1) The entity meets the following criteria:
 - a. Is organized and operating in the United States as a general corporation.
 - b. Has total assets in excess of five hundred million dollars (\$500,000,000.)
 - c. Has debt other than commercial paper, if any, that is rated "A-2", "A" or higher by a nationally recognized rating service.
 - (2) The entity meets the following criteria:
 - a. Is organized within the United States as a special purpose corporation, trust, or limited liability company.
 - b. Has program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
 - c. Has commercial paper that is rated "A1", "A+" or higher, or the equivalent, by a nationally recognized rating service.
- c. Investments in commercial paper will not exceed 25 percent of the portfolio.
- d. Each investment will not exceed 270 days maturity.
- e. No more than 10 percent of the outstanding commercial paper of an issuing corporation may be purchased.
- f. No more than 5 percent of the District's portfolio may be invested in the securities of any one non-government issuer regardless of security type.

505.00 Repurchase Agreements

A repurchase agreement is a purchase of authorized securities (other than commercial paper) with terms including a written agreement by the seller to repurchase the securities on a later specified date for a specified amount. Restrictions are as follows:

- a. The percentage limit for investment in repurchase agreements will be 50 percent of the total portfolio, unless necessary for interest rate risk hedging purposes.
- b. Repurchase agreements will be made only with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has had a significant banking relationship with the District. The bank must be rated in the highest short-term ratings category by an NRSRO.
- c. Such investments will provide for purchased securities with a market value of at least 102 percent of the amount of the invested funds. The value will be adjusted not less than quarterly.
- d. Purchased securities are limited to those protected by United States Bankruptcy Code, Treasury bills, bonds and notes, or other investments that are direct obligations of or fully guaranteed as to principal and interest by the United States or any agency thereof. Zero coupon and stripped coupon instruments are not acceptable.
- e. Such investments will provide for transfer of ownership and possession of the purchased securities either to the District directly or to a custodian depository institution which will take record title and will establish and maintain a sub-account in its financial records for the securities in the District's name, and such custodian will not be the dealer from which the securities were purchased.
- f. Each repurchase agreement will have a valid and perfected first security interest therein under the California Commercial Code or pursuant to the book entry procedures described by 31 C.F.R. Part 306 and/or 31 C.F.R. Part 357.
- g. The term of a repurchase agreement may not exceed one year .

506.00 Time Deposits

For purposes of this policy, collateralized time deposits will be considered investments. The following criteria will be used in evaluating financial institutions and form of collateral to determine eligibility for deposits:

- a. Must have been in existence for at least five years.
- b. Must have received an overall rating of not less than "satisfactory" in its most

recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities. Eligibility for deposits will be limited to those financial institutions that have a branch in the State of California and maintain a rating equivalent to Thompson BankWatch Service of "B" or better. Credit requirements may be waived for a \$100,000 time deposit that is federally insured.

- c. The deposit will not exceed the shareholders' equity of any depository bank. For the purpose of this constraint, shareholders' equity will be deemed to include capital notes and debentures.
- d. The deposit will not exceed the total of the net worth of any depository savings and loan association, except that deposits not exceeding a total of \$500,000 may be made to a savings and loan association without regard to the net worth of that depository, if such deposits are insured or secured as required by law.
- e. Deposits must be insured up to the FDIC's current limit. For uninsured deposits, the financial institution will maintain in the collateral pool securities having a market value of at least 10 percent in excess of the total amount deposited. The District, at its discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. The District shall have a signed agreement with any depository accepting District funds. Promissory notes secured by real estate mortgages or deeds of trust are not acceptable as collateral.
- g. When other factors are equal, appropriate consideration will be given to a financial institution that either individually or as a member of a syndicate bids on or makes a substantial investment in the District's securities, contributes service to the District, and offers significant assistance to the District, so as to provide for distribution of total deposits among eligible financial institutions.
- h. Purchased time deposits will be limited to a maximum maturity of one year.

507.00 Medium-Term Notes

Restrictions are as follows:

- a. Investment in medium-term notes are limited to 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.
- b. Notes eligible for investment under this subdivision will be rated A or better by at least one NRSRO.
- c. Purchases of medium-term notes may not exceed 30 percent of the portfolio, unless necessary for interest rate risk hedging purposes.

- d. Purchases of medium-term notes will be limited to a maximum maturity of five years.

508.00 Mortgage Obligations and Asset Backed Securities

The District may invest in any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond.

Restrictions are as follows:

- a. A maximum of five years to maturity.
- b. Securities eligible for investment will be issued by an issuer having an “A” or higher rating for the issuer’s debt as provided by an NRSRO and rated in a rating category of “AA” or better by an NRSRO.
- c. Purchase of securities authorized by this subdivision may not exceed 20 percent of the portfolio.

509.00 Local Agency Investment Fund Deposits

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

510.00 Shares of Beneficial Interest (Money Market Funds)

The Director of Finance/District Treasurer may invest, for temporary periods pending disbursement or reinvestment, in shares of beneficial interest issued by eligible diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. These companies must meet the following criteria:

- a. Attain the highest ranking of the highest letter and numerical rating provided by not less than two nationally recognized rating agencies, or retain an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years’ experience managing money market funds with assets under management in excess of \$500 million.
- b. The purchase price of the shares will not include any commission that the companies may charge and will not exceed 20 percent of the portfolio.

600.00 Reporting

On a monthly basis, the Director of Finance/District Treasurer will provide a report to the Board of Directors showing the holdings and activity of investments, issuers, maturity dates, par and dollar amounts invested, cash balances, amounts held by the Local Agency Investment Fund and any other amounts under the management of contracted parties.

700.00 Grandfather Clause

Any investment held by the District at the time this Policy is adopted or amended will not be sold to conform to any part of this Policy unless its sale is judged to be prudent by the Director of Finance/District Treasurer.

800.00 Conflicts of Interest

The Director of Finance/District Treasurer and his designees will perform duties under this Policy in accordance with sections 1090 and 1126 of the Government Code as well as any other state law referred to in this policy.

900.00 Conflicts

In the event any provision of this Policy is in conflict with any of the statutes referred to herein or any other state or federal statute, the provision of such statutes will govern.

1000.00 Policy Review

This policy shall be reviewed at least biennially.

APPENDIX A

State Authorized Investments vs. District's Statement of Investment Policy

Investment Type	Maximum Maturity ⁽¹⁾	Maximum Percentage of Portfolio	Percentage By Any Issuer or Bank
U.S. Treasury Obligations:			
State Code	5 years	100	--
District Policy	5 years	100	--
Federal Agencies and Government Sponsored Enterprises:			
State Code	5 years	100	--
District Policy	5 years	100	--
Repurchase Agreements:			
State Code	1 year	100	--
District Policy	1 year	50	--
Bankers Acceptances:			
State Code	180 days	40	30
District Policy	180 days	40	5
Commercial Paper:			
State Code	270 days	25	--
District Policy	270 days	25	5
Negotiable Certificates of Deposit:			
State Code	5 years	30	--
District Policy	5 years	30	5
Medium Term Notes:			
State Code	5 years	30	--
District Policy	5 years	30	5
Time Deposits:			
State Code	--	100	--
District Policy	1 year	100	--
Shares of Beneficial Interest:			
State Code	N/A	20	--
District Policy	N/A	15	10

Mortgage Backed and Asset Backed Obligations:			
State Code	5 years	20	--
District Policy	5 years	20	--
Local Agency Investment Fund:			
State Code	N/A	(3)	--
District Policy	N/A	(3)	--

Note: For funds established by Indentures of Trust, the provisions of such Indentures will govern investments.

- (1) California Government Code provides authority to the Board to permit maturities beyond 5 years with certain restrictions. The current Policy provides for maturities longer than 5 years for funds established by Indentures of Trust.
- (2) Maximum allowed by LAIF is \$50 million for general reserve funds. There is no limit for bond proceed funds.

APPENDIX B

Securities of Government-Sponsored Enterprises, Agencies and International Institutions

<u>Issuer</u>	<u>Explicit U.S. Govt. Guarantees</u>
Agency for International Development	(AID) Yes
Export-Import Bank	Yes
Farmers Home Administration	(FmHA) Yes
Federal Housing Administration	(FHA) Yes
Financial Assistance Corporation	(FAC) Yes
General Services Administration	(GSA) Yes
Private Export Funding	(PEFCO) Yes
Small Business Administration	(SBA) Yes
U.S. Department of Housing & Urban Development	(PHAs) Yes
U.S. Maritime Administration	Yes
Veterans Administration	(VA) Yes
Washington Metropolitan Area Transit	Yes
Government National Mortgage Association	(GNMA) No
Federal Farm Credit Bank	(FFCB) No
Federal Home Loan Bank	(FHLB) No
Federal Home Loan Mortgage Corporation	(FHLMC) No
Federal National Mortgage Association	(FNMA) No
Financing Corporation	(FICO) No
Resolution Funding Corporation	(Refcorp) No
Tennessee Valley Authority	(TVA) No
U.S. Postal Service	(USPS) No
World Bank	(WB) (IBRD) No