

RESOLUTION NO. 1628

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE VALLECITOS WATER DISTRICT APPROVING THE STATEMENT OF INVESTMENT POLICY FOR CALENDAR YEAR 2023

WHEREAS, the Board of Directors shall annually approve a Statement of Investment Policy; and

WHEREAS, the annual Statement of Investment Policy of the Vallecitos Water District is as follows:

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Section 1: General Provisions and Objectives

Section 1.1: Introduction

The purpose of this investment policy is to identify various policies and procedures that will foster a prudent and systematic investment program designed to meet the Vallecitos Water District's objectives of safety, liquidity and return on investment through a diversified investment portfolio. This policy also serves to organize and formalize the District's investment-related activities, while complying with all applicable statutes governing the investment of public funds. This policy is written to incorporate industry best practices and recommendations from sources such as the Government Finance Officers Association (GFOA), California Municipal Treasurers Association (CMTA), California Debt and Investment Advisory Commission (CDIAC) and the Association of Public Treasurers (APT).

Section 1.2: Scope

This policy covers all funds and investment activities under the direct authority of the District, as set forth in California Government Code, Sections 53600 *et seq.*, with the following exceptions:

- Proceeds of debt issuance shall be invested in accordance with the District's general investment philosophy as set forth in this policy; however, such proceeds are to be invested pursuant to the permitted investment provisions of their specific bond indentures.
- Any other funds specifically exempted by the Board of Directors.

Section 1.3: Pooling of Funds

Except for cash in certain restricted funds, the District will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

Section 1.4: Prudence

Pursuant to California Government Code, Section 53600.3, all persons authorized to make investment decisions on behalf of the District are trustees and therefore fiduciaries subject to the Prudent Investor Standard:

"...all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

The Treasurer and other authorized persons responsible for managing District funds acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes provided that the Treasurer or other authorized persons acted in good faith. Deviations from expectations of a security's credit or market risk should be reported to the Board of Directors in a timely fashion and appropriate action should be taken to control adverse developments.

Section 1.5: Objectives

The District's overall investment program shall be designed and managed with a degree of professionalism worthy of the public trust. The overriding objectives of the program are to

preserve principal, provide sufficient liquidity, and manage investment risks, while seeking a market-rate of return.

- **Safety.** Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the District will diversify its investments by investing funds among a variety of securities with independent returns.
- **Liquidity.** The investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
- **Return on Investments.** The investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs.

Section 2: Delegation of Authority

Authority to manage the District's investment program is derived from California Government Code, Sections 41006 and 53600 et seq.

The Board of Directors is responsible for the management of the District's funds, including the administration of this investment policy. Management responsibility for the cash management of the District's funds is hereby delegated to the Treasurer.

The Treasurer will be responsible for all transactions undertaken and will establish a system of procedures and controls to regulate the activities of subordinate officials and employees. Such procedures will include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

The District may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the District's investment portfolio in a manner consistent with the District's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

The District's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The District recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the District.

Section 3: Ethics and Conflicts of Interest

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

Employees and investment officials shall disclose to the District's General Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the District.

Section 4: Internal Controls

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Periodically, as deemed appropriate by the District and/or the Board of Directors, an independent analysis by an external auditor shall be conducted to review internal controls, account activity and compliance with policies and procedures.

Section 5: Authorized Financial Institutions, Depositories, and Broker/Dealers

To the extent practicable, the Treasurer shall endeavor to complete investment transactions using a competitive bid process whenever possible. The District's Treasurer will determine which financial institutions are authorized to provide investment services to the District. It shall be the District's policy to purchase securities only from authorized institutions and firms.

The Treasurer shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence as determined by the District. Due inquiry shall determine whether such authorized broker/dealers, and the individuals covering the District are reputable and trustworthy, knowledgeable and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

In accordance with Section 53601.5, institutions eligible to transact investment business with the District include:

- Institutions licensed by the state as a broker-dealer.
- Institutions that are members of a federally regulated securities exchange.
- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- Nationally or state-chartered banks.
- The Federal Reserve Bank.
- Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the District, except where the District utilizes an external investment adviser in which case the District may rely on the adviser for selection.

All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the Treasurer with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 et seq. and the District's investment policy. The Treasurer will conduct an annual review of the financial condition and registrations of such qualified bidders.

Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

Selection of broker/dealers used by an external investment adviser retained by the District will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

Section 6: Authorized Investments

The District's investments are governed by California Government Code, Sections 53600 et seq. Within the investments permitted by the Code, the District seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits and credit quality minimums listed in this section apply at the time the security is purchased.

Any investment currently held at the time the policy is adopted which does not meet the new policy guidelines can be held until maturity, and shall be exempt from the current policy. At the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

An appropriate risk level shall be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.

Section 6.1: Municipal Securities include obligations of the District, the State of California, any of the other 49 states, and any local agency within the State of California, provided that:

- The securities are rated in the "A" category or higher by at least one nationally recognized statistical rating organization ("NRSRO").

- No more than 5% of the portfolio may be invested in any single issuer.
- No more than 25% of the portfolio may be in Municipal Securities.
- The maximum maturity does not exceed five (5) years.

Section 6.2: U.S. Treasuries and other government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. There are no limits on the dollar amount or percentage that the District may invest in U.S. Treasuries, provided that the maximum maturity is five (5) years.

Section 6.3: Federal Agencies or United States Government-Sponsored Enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There are no limits on the dollar amount or percentage that the District may invest in Federal Agency or Government-Sponsored Enterprises (GSEs), provided that:

- No more than 30% of the portfolio may be invested in any single agency/GSE issuer.
- The maximum maturity does not exceed five (5) years.

Section 6.4: Banker's Acceptances, provided that:

- They are issued by institutions which have short-term debt obligations rated "A-1" or higher by at least one NRSRO; or long-term debt obligations which are rated in the "A" category or higher by at least one NRSRO.
- No more than 20% of the portfolio may be invested in Banker's Acceptances.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed 180 days.

Section 6.5: Commercial Paper, provided that:

- The issuer is a corporation organized and operating in the United States with assets in excess of \$500 million.
- The securities are rated "A-1" or the equivalent or higher by at least one NRSRO.
- They are issued by corporations which have long-term obligations, if any, that are rated in the "A" category or higher by at least one NRSRO.
- The District may also purchase commercial paper issued by entities organized within the United States as a special purpose corporation, trust, or limited liability company, provided that the securities have program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.
- District may purchase no more than 10% of the outstanding commercial paper of any single issuer.

- No more than 25% of the portfolio may be invested in Commercial Paper if the District's assets total \$100 million or less. If the District's investment assets total more than \$100 million, then no more than 40% of the portfolio may be invested in commercial paper until January 1, 2026 unless this is extended.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed 270 days.

Section 6.6: Certificates of Deposit (CDs), in or issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank, provided that:

- The amount of the CD insured up to the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA) limit does not require any credit ratings.
- For Negotiable CDs, any amount above the FDIC or NCUA insured limit must be issued by institutions which have short-term debt obligations rated "A-1" or higher by at least one NRSRO; or long-term obligations rated in the "A" category or higher by at least one NRSRO.
- For Non-negotiable CDs (Time Deposits), amounts deposited in excess of insured amounts are fully collateralized with securities in accordance with California law.
- No more than 20% of the total portfolio may be invested in CDs.
- No more than 5% of the portfolio may be invested in any single issuer or institution.
- The maximum maturity does not exceed five (5) years.

Section 6.7: Collateralized Bank Deposits. District's deposits with financial institutions will be collateralized with pledged securities per California Government Code, Section 53651.

Section 6.8: Repurchase Agreements collateralized with securities authorized under California Government Code, maintained at a level of at least 102% of the market value of the Repurchase Agreement, provided that:

- Securities used as collateral for Repurchase Agreements will be delivered to an acceptable third party custodian.
- Repurchase Agreements are subject to a Master Repurchase Agreement between the District and the provider of the repurchase agreement. The Master Repurchase Agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA).
- No more than 25% of the portfolio can be invested in Repurchase Agreement.
- No more than 10% of the portfolio may be invested in any single participating institution.
- The maximum maturity does not exceed one (1) year.

Section 6.9: Local Government Investment Pools (LGIPs), including State of California Local District Investment Fund (LAIF), provided that:

- The District may invest up to the maximum amount permitted by the LGIP.
- The LGIP's investments in instruments prohibited by or not specified in the District's policy do not exclude the investment in the LGIP itself from the District's list of allowable investments, provided the LGIP's reports allow the Treasurer to adequately judge the risk inherent in the LGIP's portfolio.

Section 6.10: Corporate Medium Term Notes (MTNs), provided that:

- The issuer is a corporation 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.
- The securities are rated in the "A" category or higher by at least one NRSRO.
- No more than 25% of the total portfolio may be invested in MTNs.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

Section 6.11: Asset-Backed Securities, including Mortgage-Backed, Mortgage Pass-Through, and Collateralized Mortgage Obligations, provided that:

- The securities are rated in the "AA" category or higher by a NRSRO.
- No more than 20% of the total portfolio may be invested in these securities.
- No more than 5% of the portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer. There is no issuer limitation on any Mortgage security where the issuer is the US Treasury or a Federal District/GSE.
- The maximum legal final maturity does not exceed five (5) years.

Section 6.12: Money Market Mutual Funds that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:

- Such Funds meet either of the following criteria:
 1. Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
 2. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of \$500 million.
- No more than 20% of the total portfolio may be invested in Money Market Mutual Funds.

Section 6.13: Supranationals, provided that:

- Issues are US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.
- The securities are rated in the "AA" category or higher by a NRSRO.
- No more than 25% of the total portfolio may be invested in these securities.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

Section 6.14: Permissible Investments and Limits Summary Table, notwithstanding further detailed provisions, limitations, and restrictions of this Policy:

Investment Type	% of Investment Portfolio		Maturity	Minimum Credit Rating
	Type	Issuer/ Institution		
Bank Deposits	100%	100%		
LGIPs (including LAIF)	100%	100%		
US Treasuries	100%	100%	5 years	
Federal Agencies/GSEs	100%	30%	5 years	
Repurchase Agreements	25%	10%	1 year	
Municipals	25%	5%	5 years	A
Corporate MTNs	25%	5%	5 years	A
Supranationals	25%	5%	5 years	AA
Commercial Paper	25%*	5%	270 days	A-1 / A, if any
MM Mutual Funds	20%	20%		AAA
Certificates of Deposit	20%	5%	5 years	
Asset-Backed Securities	20%	5%	5 years	AA
Banker's Acceptances	20%	5%	180 days	A-1 / A

*40% if AUM >\$100 million

Section 7: Prohibited Investment Vehicles and Practices

- State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.
- In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
- Investment in any security that could result in a zero interest accrual if held to maturity is prohibited.
- Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
- Purchasing or selling securities on margin is prohibited.

- The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
- The purchase of foreign currency denominated securities is prohibited.

Section 8: Investment Pools/Mutual Funds

The District shall conduct a thorough investigation of any pool or mutual fund prior to making an investment, and on a continual basis thereafter. The Treasurer shall develop a questionnaire which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

Section 9: Collateralization

Certificates of Deposit (CDs). The District shall require any commercial bank or savings and loan association to deposit eligible securities with an agency of a depository approved by the State Banking Department to secure any uninsured portion of a Non-Negotiable Certificate of Deposit. The value of eligible securities as defined pursuant to California Government Code, Section 53651, pledged against a Certificate of Deposit shall be equal to 150% of the face value of the CD if the securities are classified as mortgages and 110% of the face value of the CD for all other classes of security.

Collateralization of Bank Deposits. This is the process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing repayment of deposited funds. The District shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code, Section 53651.

Repurchase Agreements. The District requires that Repurchase Agreements be collateralized only by securities authorized in accordance with California Government Code:

- The securities which collateralize the repurchase agreement shall be priced at Market Value, including any Accrued Interest plus a margin. The Market Value of the securities

that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities.

- Financial institutions shall mark the value of the collateral to market at least monthly and increase or decrease the collateral to satisfy the ratio requirement described above.
- The District shall receive monthly statements of collateral.

Section 10: Delivery, Safekeeping and Custody

Delivery-versus-Payment (DVP). All investment transactions shall be conducted on a delivery-versus-payment basis.

Safekeeping and Custody. To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all cash and securities in the District's portfolio shall be held in safekeeping in the District's name by a third-party custodian, acting as agent for the District under the terms of a custody agreement executed by the bank and the District. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by the District from the custodian listing all securities held in safekeeping with current market data and other information.

The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) money market mutual funds since the purchased securities are not deliverable.

Section 11: Maximum Maturity

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities.

The District will not invest in securities maturing more than five (5) years from the date of trade settlement, unless the Board of Directors has by resolution granted authority to make such an investment.

Section 12: Risk Management and Diversification

Section 12.1: Mitigating Credit Risk in the Portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. Concentration of credit risk is the risk of loss attributed to the magnitude of a District's investment in a single issuer. Custodial credit risk is the risk that the District will not be able to recover deposits or the value of an investment or collateral securities that are in the possession of an outside party. The District will mitigate credit risk by adopting the following strategies:

- The diversification requirements included in Section 6: Authorized Investments of this policy are designed to mitigate credit risk in the portfolio.

- No more than 5% of the total portfolio may be invested in securities of any single issuer, except where the issuer is the US Government, its Agencies and GSEs, an authorized Supranational issuer or where the security is a Money Market Mutual Fund, Local District Investment Fund (LAIF) or other Local Government Investment Pool unless otherwise specified in this investment policy.
- The District may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or District's risk preferences.
- If securities owned by the District are downgraded by an NRSRO to a level below the quality required by this investment policy, making the security ineligible for additional purchases, the following steps will be taken:
 - Any actions taken by the investment manager related to the downgrade will be communicated to the Treasurer in a timely manner.
 - If a decision is made to retain a downgraded security in the portfolio, the credit situation will be monitored and reported to the Board of Directors.

Section 12.2: Mitigating Market Risk in the Portfolio

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The District recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The District will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The District further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The District, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The District will maintain a minimum of six months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements.
- The maximum percent of callable securities in the portfolio will be 30%. (Does not include "make whole call" securities as defined in the glossary).
- The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.
- The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the District based on the District's investment objectives, constraints and risk tolerances.

Section 12.3: Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the portfolio. The District shall be prohibited from investing in foreign currency-denominated securities, unless permissible within the California Government Code and specifically approved by the Board prior to purchase.

Section 13: Review and Reporting

Section 13.1: Review of Investment Portfolio

The Treasurer shall periodically, but no less than quarterly, review the portfolio to identify investments that do not comply with this investment policy and establish protocols for reporting incidences of noncompliance to the Board of Directors.

Section 13.2: Performance Evaluation

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the District's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments.

The Treasurer shall monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s), which will be included in the Treasurer's quarterly report. The Treasurer shall select an appropriate, readily available index to use as a market benchmark.

Section 13.3: Monthly Reports

Monthly transaction reports will be submitted by the Treasurer to the Board of Directors within 30 days of the end of the reporting period in accordance with California Government Code Section 53607.

Section 13.4: Quarterly Reports

The Treasurer will submit a quarterly investment report to the Board of Directors which provides full disclosure of the District's investment activities within 30 days after the end of the quarter. These reports will disclose, at a minimum, the following information about the District's portfolio:

- An asset listing showing par value, cost and independent third-party fair market value of each security as of the date of the report, the source of the valuation, type of investment, issuer, maturity date, and interest rate.
- Transactions for the period.
- A description of the funds, investments and programs (including lending programs) managed by contracted parties (i.e. LAIF; investment pools, outside money managers and securities lending agents)
- A one-page summary report that shows:
 - Average maturity of the portfolio and modified duration of the portfolio;
 - Maturity distribution of the portfolio;
 - Percentage of the portfolio represented by each investment category;
 - Average portfolio credit quality; and,
 - Time-weighted total rate of return for the portfolio for the prior one month, three months, twelve months and since inception compared to the District's market benchmark returns for the same periods.

- A statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the California Government Code, including a justification for their presence in the portfolio and a timetable for resolution.
- A statement that the District has adequate funds to meet its cash flow requirements for the next six months.

Section 13.5: Annual Reports

A comprehensive annual report will be presented to the Board of Directors. This report will include comparisons of the District's return to the market benchmark return, suggest policies and improvements that might enhance the investment program, and will include an investment plan for the coming year.

Section 13.6: Review of Investment Policy

The investment policy will be reviewed and adopted at least annually within 30 days of the end of the calendar year, to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

Any recommended modifications or amendments shall be presented by Staff to the Board of Directors for their consideration and adoption.

Section 14: Glossary of Terms

Asset-backed securities (ABS) are securities whose income payments and hence value is derived from and collateralized (or "backed") by a specified pool of underlying assets which are receivables. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can comprise common payments credit cards, auto loans, mortgage loans, and other types of assets. Interest and principal is paid to investors from borrowers who are paying down their debt.

Bankers' Acceptances are short-term credit arrangements to enable businesses to obtain funds to finance commercial transactions. They are time drafts drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. By its acceptance, the bank becomes primarily liable for the payment of the draft at maturity. An acceptance is a high-grade negotiable instrument.

Broker-Dealer is a person or a firm who can act as a broker or a dealer depending on the transaction. A broker brings buyers and sellers together for a commission. They do not take a position. A dealer acts as a principal in all transactions, buying and selling for his own account.

Certificates of Deposit

Negotiable Certificates of Deposit are large-denomination CDs issued in \$1 million increments. These securities have average trades in the secondary market of \$5 million to \$10 million. They are issued at face value and typically pay interest at maturity, if maturing in less than 12 months. CDs that mature beyond this range pay interest semi-annually. Negotiable CDs are issued by U.S. banks (domestic CDs), U.S. branches of foreign banks (Yankee CDs), and thrifts. There is an active secondary market for negotiable domestic and Yankee CDs. However, the negotiable thrift CD secondary market is limited. Yields on CDs exceed those on U.S. treasuries and agencies of similar maturities. This higher yield compensates the investor for accepting the risk of reduced liquidity and the risk that the issuing bank might fail. State law does not require the collateralization of negotiable CDs.

Non-negotiable Certificates of Deposit are time deposits with financial institutions that earn interest at a specified rate for a specified term. Liquidation of the CD prior to maturity incurs a penalty. There is no secondary market for those instruments, therefore, they are not liquid. They are classified as public deposits and financial institutions are required to collateralize them. Collateral may be waived for the portion of the deposits that are covered by FDIC insurance.

Collateral is securities, evidence of deposits, or other property that a borrower pledges to secure repayment of a loan. It also refers to securities pledged by a bank to secure deposits. In California, repurchase agreements, reverse repurchase agreements, and public deposits must be collateralized.

Commercial Paper is a short term, unsecured, promissory note issued by a corporation to raise working capital.

Federal Agency Obligations are issued by U.S. Government Agencies or Government Sponsored Enterprises (GSE). Although they were created or sponsored by the U.S. Government, most Agencies and GSEs are not guaranteed by the United States Government. Examples of these securities are notes, bonds, bills and discount notes issued by Fannie Mae (FNMA), Freddie Mac (FHLMC), the Federal Home Loan Bank system (FHLB), and Federal Farm Credit Bank (FFCB). The Agency market is a very large and liquid market, with billions traded every day.

Issuer means any corporation, governmental unit, or financial institution that borrows money through the sale of securities.

Liquidity refers to the ease and speed with which an asset can be converted into cash without loss of value. In the money market, a security is said to be liquid if the difference between the bid and asked prices is narrow and reasonably sized trades can be done at those quotes.

Local Agency Investment Fund (LAIF) is a special fund in the State Treasury that local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum of \$50 million for any California public agency. It offers high liquidity because deposits can be

converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via direct deposit to the agency's LAIF account. The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of one per cent of the earnings.

Local Government Investment Pool (LGIP) is a collection of funds from various governmental entities invested in a common portfolio. Each investor earns interest proportional to their investment in the overall pool.

Make Whole Call is a type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision the issuer makes a lump sum payment that equals the net present value of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated or "made whole".

Market Value is the price at which a security is trading and could presumably be purchased or sold.

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

Medium-Term Notes are debt obligations issued by corporations and banks, usually in the form of unsecured promissory notes. These are negotiable instruments that can be bought and sold in a large and active secondary market. For the purposes of California Government Code, the term "Medium Term" refers to a maximum remaining maturity of five years or less. They can be issued with fixed or floating-rate coupons, and with or without early call features, although the vast majority are fixed-rate and non-callable. Corporate notes have greater risk than Treasuries or Agencies because they rely on the ability of the issuer to make payment of principal and interest.

Money Market Fund is a type of safe investment comprising a variety of short-term securities with high quality and high liquidity. The fund provides interest to shareholders and must maintain a stable net asset value (NAV) of \$1 per share.

Municipal Obligations are debt instruments issued by a state or local government unit or public agency. The vast majority of municipals are exempt from state and federal income tax, although some non-qualified issues are taxable.

Principal describes the original cost of a security. It represents the amount of capital or money that the investor pays for the investment.

Repurchase Agreements are short-term investment transactions. Banks buy temporarily idle funds from a customer by selling him U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date at an agreed upon interest rate. Repurchase Agreements are typically for one to ten days in maturity. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for Federal Funds and the maturity of the Repo. Repurchase Agreements must be collateralized.

Supranationals are United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), with maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States.

U.S. Treasury Issues are direct obligations of the United States Government. They are highly liquid and are considered the safest investment security. U.S. Treasury issues include:

Treasury Bills that are non-interest-bearing discount securities issued by the U.S. Treasury to finance the national debt. Bills are currently issued in one-, three-, six-, and twelve-month maturities.

Treasury Notes that have original maturities of one to ten years.

Treasury Bonds that have original maturities of greater than 10 years.

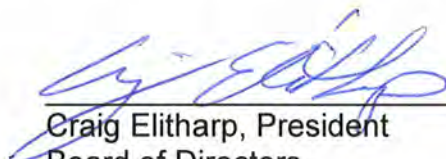
Yield to Maturity is the rate of income return on an investment, minus any premium above par or plus any discount with the adjustment spread over the period from the date of the purchase to the date of maturity of the bond.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Vallecitos Water District as follows:

The Annual Statement of Investment Policy for calendar year 2022 is hereby approved and replaces and previous versions. The District Treasurer is directed to follow this Statement of Investment Policy in investing funds of the District.

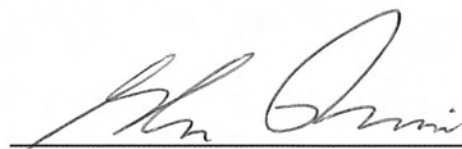
PASSED AND ADOPTED by the Board of Directors of the Vallecitos Water District at a regular meeting held on this 14th day of December 2022, by the following roll call vote:

- AYES: BOYD-HODGSON, ELITHARP, HERNANDEZ, PENNOCK
- NOES:
- ABSTAIN:
- ABSENT:



 Craig Elitharp, President
 Board of Directors
 Vallecitos Water District

ATTEST:



 Glenn Prui, Secretary
 Board of Directors
 Vallecitos Water District