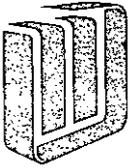


FILED by order  
of the Board of Directors of  
The Metropolitan Water District  
of Southern California  
at its meeting held APR 14 1992

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*METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA*

*Karen E. Duff*  
Executive Secretary

March 17, 1992

*To:* Board of Directors (Finance and Insurance Committee--Information)  
*From:* General Manager  
*Subject:* Annual Statement of Investment Policy

Report

In accordance with State law, this letter transmits the Treasurer's Statement of Investment Policy ("Investment Policy"), dated March 17, 1992, for your Board's information and annual filing.

Since the last filing on November 19, 1991, the Board of Directors has authorized the following changes to the Administrative Code: (1) the investment limitation in repurchase agreements was increased in Investment Policy Section 7(a) from 10 to 30 percent of the total investment portfolio; and (2) the investment in Shares of Beneficial Interest up to 15 percent of the total portfolio was authorized in Investment Policy Section 16. Both of these changes were approved by your Board at its March 10, 1992 meeting and are now incorporated into the Statement of Investment Policy shown by attachment hereto.

Because Metropolitan now uses Security Pacific National Bank as custodian for all securities purchased, the second paragraph contained in Investment Policy Section 18 (a) which references safekeeping of repurchase agreements with City National Bank, Beverly Hills, has been deleted.

Board Committee Assignment

This letter was sent for information to the Finance and Insurance Committee because of its authority to study, advise and make recommendations with regard to disposition and investment of funds, pursuant to Administrative Code Section 2441(c).

Recommendation

For information only.

  
Carl Boronkay

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Attachment

## THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

STATEMENT OF INVESTMENT POLICY  
March 17, 1992\*1. Investment Authority

In accordance with Section 53600 et seq. of the Government Code of the State of California, the authority to invest public funds is expressly delegated to the Board of Directors for subsequent redelegation to the Treasurer. Investments by the Treasurer are limited to those instruments specified by the Board in Chapter 5101 of the MWD Administrative Code.

2. Basic Policy and Statement of Objectives

In order of importance, three fundamental criteria shall be followed in the investment program:

- a. Safety of Principal - investments shall be undertaken in a manner which first seeks to ensure the preservation of principal in the portfolio. The Treasurer shall evaluate or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral, and shall diversify the portfolio to reduce exposure to loss.
- b. Liquidity - investments shall be made whose maturity date is compatible with cash flow requirements and which will permit easy and rapid conversion into cash without a substantial loss of value.
- c. Return on Investment - investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity.

3. Prudent Person

As an investment standard, any investment shall be made as if it is one which would be purchased by a prudent person using the same discretion and intelligence that a person would use in managing his own affairs and certainly not for speculation.

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\* Supersedes Statement of Investment Policy dated 10/31/91

4. Portfolio

Any reference to portfolio shall mean the total of Metropolitan's cash and securities under management by the Treasurer, excluding cash and securities held in escrow or trust on behalf of Metropolitan.

5. Maturity Limitations

- a. The Treasurer is authorized to invest District fund balances up to a maximum term of two years except for moneys in the Employees' Deferred Compensation Fund, Water Revenue Bond Reserve Fund, and the Iron Mountain Landfill Closure/Postclosure Maintenance Fund which may exceed a two year term. (Administrative Code Section 5101(b)(2))
- b. For certain instruments, the term of the investment is limited by market convention or as otherwise prescribed herein.

6. Time Deposits

For purposes of this policy, collateralized time deposits shall be considered investments.

The following criteria will be used in evaluating financial institutions and form of collateral to determine eligibility for deposits:

- a. The financial institution must have been in existence for at least five years.
- b. Eligibility for deposits shall be limited to those financial institutions which maintain a rating equivalent to Keefe Bank Watch Service of "C" or better.
- c. The deposit shall not exceed the shareholders' equity of any depository bank. For the purposes of this constraint, shareholders' equity shall be deemed to include capital notes and debentures. (Government Code Section 53638(a))
- d. The deposit shall not exceed the total of the net worth of any depository savings and loan association, except

that deposits not exceeding a total of five hundred thousand dollars (\$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. (Government Code Section 53638(b))

- e. The total deposits shall not exceed 50 percent of an eligible financial institution's paid-up capital and surplus. (Government Code Section 53638(b))
- f. When conditions so warrant, the Treasurer may waive the first \$100,000 of collateral security for such deposits if the financial institution is insured pursuant to federal law. (Government Code Section 53653)
- g. In order to secure such deposits, the financial institution shall maintain in the collateral pool, securities having a market value of at least 10 percent in excess of the total amount deposited. (Government Code Section 53652)
- h. Real estate mortgages may not be accepted as collateral.
- i. 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 Metropolitan's bonds; contributes service to the District or a member public agency; or offers significant assistance to Metropolitan, so as to provide for distribution of total deposits among eligible financial institutions.
- j. The maximum term for time deposits shall be one year.

7. Repurchase Agreements

A repurchase agreement is a purchase of securities (those authorized for investment pursuant to Administrative Code Sections 5101(b)(2)(ii), 5101(b)(2)(iv) or 5101(b)(2)(vii) (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 shall be ~~10~~ 30 percent of the total portfolio;

- b) Repurchase agreements shall not exceed one year in length;
- c) Repurchase agreements shall be made only with primary dealers in government securities or financial institutions with a Moody's Investors Service, Inc., or equivalent, rating of A or better;
- d) Such investments with maturities of less than six months, or six months to one year, shall provide for purchased securities with a market value at least 101 percent and 102 percent, respectively, of the amount of the invested funds;
- e) Purchased securities are limited to those covered by the Bankruptcy Act amendments of 1984;
- f) Such investments shall provide for transfer of ownership and possession of the purchased securities either to the District directly or to a custodian depository institution which shall take record title and shall establish and maintain a subaccount in its financial records for the securities in the District's name, and such custodian shall not be the dealer from which the securities were purchased;
- g) Each repurchase agreement shall provide a contractual right to liquidation of the purchased securities upon the bankruptcy, insolvency or other default of the counterparty; and
- h) Purchased securities shall have maturities within sixty months of the date of investment.

8. Reverse Repurchase Agreements

A reverse repurchase agreement is a sale by the Treasurer of securities in the portfolio with terms including a written agreement to repurchase the securities on or before a specified date for a specified amount.

- a. Subject to the approval of the Director of Finance, the Treasurer may enter into a reverse repurchase agreement provided that the proceeds are invested solely to supplement the income normally received from the securities involved in the agreement.

- b. No more than 10 percent of the portfolio may be subject to reverse repurchase agreements at any time.

9. 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 by State Treasury policy. (Administrative Code Section 5101(b)(2)(viii))

10. Metropolitan Water District Federal Credit Union Deposits

Deposits for the purpose of investment of funds held pursuant to the District's deferred compensation plans in the Metropolitan Water District Federal Credit Union shall be limited to the maximum amount insured by the National Credit Union Share Insurance Fund. (Administrative Code Section 5101(b)(6)(ii))

11. Negotiable Certificates of Deposit

Restrictions are as follows:

- a. Investments in negotiable certificates of deposit shall not exceed 20 percent of the total portfolio in effect immediately after any such investment is made. (Administrative Code Section 5101(b)(2)(vii))
- b. 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 by a state-licensed branch of a foreign bank. (Government Code Sections 53601(h) and 53635(h))
- c. Eligibility for deposits shall be limited to those financial institutions which maintain a rating equivalent to Keefe Bank Watch Service of "B/C" or better, providing this category of investments does not exceed 15 percent of the portfolio. Any investments which should cause this category to exceed 15 percent of the portfolio shall be limited to those financial institutions which maintain a rating equivalent to Keefe Bank Watch Service of "B" or better. (Administrative Code Section 5101(b)(2)(vii))
- d. The investment shall not exceed the shareholders' equity of any depository bank. For the purposes of

this constraint, shareholders' equity shall be deemed to include capital notes and debentures. (Government Code Section 53638(a))

- e. The investment shall not exceed the total of the net worth of any depository savings and loan association, except that investments not exceeding a total of five hundred thousand dollars (\$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. (Government Code Section 53638(b))
- f. The total investment in an eligible financial institution shall not exceed 25 percent of the total portfolio available for investment in this investment category.
- g. The maximum maturity shall be limited to six months. (Administrative Code Section 5101(b)(2)(vii))

12. Bankers' Acceptances

Restrictions are as follows:

- a. Investments in prime bankers' acceptances shall not exceed 30 percent of the portfolio in effect immediately after any such investment is made. (Administrative Code Section 5101(b)(2)(vii))
- b. Eligibility shall be limited to those financial institutions which maintain a rating equivalent to Keefe Bank Watch Service of "C" for domestic bank and "III/III" for foreign banks if a rating service is utilized.
- c. No more than 25 percent of this category of investments may be invested in any one commercial bank's acceptances.
- d. The maximum maturity shall be limited to 270 days. (Government Code Sections 53601(f) and 53635(f))

13. 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

as provided by Moody's Investors Service, Inc., or Standard and Poor's Corporation may be purchased. (Government Code Sections 53601(g) and 53635(g))

- b. Eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of \$500,000,000. (Government Code Sections 53601(g) and 53635(g))
- c. Eligible issuer's debt must carry Moody's or Standard and Poor's rating of "A" or higher. (Government Code Sections 53601(g) and 53635(g))
- d. Investments in commercial paper shall not exceed 20 percent of the portfolio in effect immediately after any such investment is made (Administrative Code Section 5101(b)(2)(vii)), providing that the dollar-weighted average maturity of the entire amount does not exceed 31 days. "Dollar-weighted average maturity" means the sum of the amount of each investment multiplied by the number of days to maturity, divided by the total amount of outstanding commercial paper. (Government Code Sections 53601(g) and 53635(g)).
- e. Investments in commercial paper totalling 15 percent or less of the portfolio in effect immediately after any such investment is made shall not be subject to the dollar-weighted average maturity limitation. Each investment shall, however, not exceed 180 days maturity. (Government Code Sections 53601(g) and 53635(g))
- f. No more than 10 percent of the outstanding commercial paper of an issuing corporation may be purchased. (Government Code Sections 53601(g) and 53635(g))
- g. The total investment in an eligible financial institution shall not exceed 25 percent of the total portfolio available for investment in this investment category.

14. U.S. Government and Agencies

- a. The concentration of investments in federal agency obligations shall not exceed one-third of all investments in effect immediately after any such

investment is made. (Administrative Code Section 5101(b)(2)(iv))

- b. Investments in U.S. Treasury obligations shall not be subject to any limitations.
- c. Investments in direct obligations of the U.S. Government shall not be subject to any limitations.

15. Securities Related to the State Water Project

Investments in State of California securities shall be limited to one registered bond or note, in the minimum denomination available, of any series of bonds or notes issued for purposes related to the State Water Project. (Administrative Code Section 5101(b)(2)(ix))

16. Shares of Beneficial Interest

The Treasurer may invest in shares of beneficial interest issued by eligible diversified management companies investing exclusively in (1) United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest, or (2) repurchase agreements exclusively involving such treasury obligations. To be eligible, any such company shall attain the highest ranking or the highest letter and numerical rating provided by at least two of the three largest nationally recognized rating services. The purchase price of the shares of beneficial interest purchased shall not include any commission, and the total amount of the investment in such companies shall not exceed 15 percent of the funds of the District.

17. 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 to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality. In no instance shall an exchange be used for speculative purposes. Any such exchange shall be simultaneous (same day execution of sale and purchase), and shall require the approval of the Director of Finance. (General Instruction 12G)

18. Safekeeping

- a. All securities purchased shall be delivered against payment and held in safekeeping pursuant to a safekeeping agreement. (Administrative Code Section 5101(c)).

*Exception is provided for repurchase agreements with City National Bank, Beverly Hills, in which the securities purchased will be held for safekeeping in a joint custody account between Metropolitan and City National Bank at the Federal Reserve Bank of San Francisco.*

*b/ All financial institutions shall be instructed to mail confirmation and safekeeping receipts directly to the controller for audit.*

- b. All financial institutions who provide safekeeping services for the District shall be required to provide reports or safekeeping receipts directly to the Controller to verify securities taken into their possession.

19. Portfolio Adjustments

- a. 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 Treasurer shall consider reconstructing the portfolio basing his decision in part on the expected length of time the portfolio will be imbalanced.

20. 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 the District's financial consultant.
- b. The purchase of any investment other than those purchased directly from the issuer shall be, to the extent possible, from a firm designated as a Primary Dealer 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 Controller for audit.
- d. Annually the Treasurer shall transmit a copy of the current Statement of Investment Policy to all approved dealers. The dealer is required to return a signed statement indicating receipt and understanding of the District's investment policies.
- e. When practicable, the Treasurer shall solicit more than one quotation on each trade.
- f. Each day's listing of market indices and quotations shall be transmitted by the Treasurer to the Controller for filing.

21. Reporting Requirements

In accordance with Government Code Section 53646 and Administrative Code Section 5114, the Treasurer shall submit a monthly report to the Executive Secretary of the Board of Directors via the General Manager indicating the types of investment by fund, institution, date of maturity, and amount of deposit, and shall provide the current market value of all securities with a maturity of more than 12 months, rates of interest, and expected yield to maturity. The Treasurer shall also submit a monthly summary report to the Board of Directors via the General Manager showing investment activity and the status of cash by depository.

22. Monitoring Safety and Liquidity of District Funds

The Treasurer shall monitor or cause to be monitored the extent to which financial institutions with which the District maintains deposits or investments have ties to the Republic of South Africa or any other country that may jeopardize the safety and liquidity of District funds. Such matters shall be periodically reported to the Finance and Insurance Committee. (Board Resolution 8109)

23. Investment Policy Administration

The Treasurer may, at any time, further restrict the securities approved for investment as deemed appropriate.