

FEB -8 1994



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

*Daren E. Duff*  
EXECUTIVE SECRETARY

January 19, 1994

To: Board of Directors (Finance and Insurance Committee-Action)

From: General Manager

Subject: Revision to Metropolitan's Statement of Investment Policy

Report

The Government Code of the State of California (Government Code), primarily section 53601, authorizes the types of investment vehicles that are allowed in a California local agency's portfolio. The investment vehicles emphasize preservation of capital and are a conservative set of investments. The authority to invest surplus funds (as defined in the Government Code) is delegated to the local agency's legislative body for redelegation to its treasurer. Under no circumstances is the local agency treasurer permitted to purchase an investment that is not specifically authorized within the State Government Code and within the scope of investments delegated by the local agency's governing board. Metropolitan has adopted a subset of the state authorized investments in its delegation to the Treasurer. The investment vehicles authorized by your Board are described in Metropolitan's Statement of Investment Policy and the Administrative Code. Metropolitan reviews and updates the Statement of Investment Policy annually. Changes from the Revision to Metropolitan's Statement of Investment Policy pending letter dated December 15, 1993 have been underlined.

Metropolitan's investment policy has been, and should continue to be, a conservative policy guided by the three guiding principles of public fund management:

- (1) Safety - investments shall be undertaken in a manner which first seeks to ensure the preservation of principal.
- (2) Liquidity - investments shall be made in a manner consistent with Metropolitan's cash needs, and which will permit rapid conversion to cash without a substantial loss in value.

- (3) Return - investments will be made to maximize the rate of return without compromising the need for safety and liquidity.

Metropolitan's investment goals are consistent with these principles, while its practices and procedures are designed to ensure that available funds are invested in a manner which produces the greatest value to our ratepayers and tax payers.

One of the strategies included in Metropolitan's Strategic Plan is improving the return on the investment portfolio. Metropolitan's existing investment policy is currently only a subset of the options available under state law, with a great emphasis on short-term (less than two years) investments. But, with the significant reductions in short-term interest rates, enormous growth in money market fund assets, and the steepening yield curve over the past three years, Metropolitan's return has fallen. In order to meet Metropolitan's financial objectives, consistent with a policy of fiscal responsibility, it is appropriate to evaluate and revise the Statement of Investment Policy and Administrative Code to provide for greater flexibility and diversity. As noted earlier, the investments authorized under the Government Code are a conservative set of investment options. By expanding Metropolitan's investment policy to permit the use of additional investment vehicles permitted for investment by governmental entities under California law, Metropolitan can improve investment returns, while increasing flexibility and diversity and maintaining the high quality of the portfolio. One of the most important methods for reducing risk is to diversify assets. By increasing investment opportunities to allow the full scope of state authorized investments, Metropolitan can better manage risk.

The Government Code permits the following investments, which are currently prohibited under the Administrative Code:

- (1) Maturities of up to five years.
- (2) Medium Term Notes issued by United States corporations rated "A" by a major rating service.

- (3) Mortgage-backed securities, collateralized mortgage obligations, mortgage pass through securities, and asset backed securities rated "AA" or higher by an issuer with long-term debt ratings of "A" or better.

These alternatives are authorized investments for a number of public entities (including the City of Los Angeles, Los Angeles County, and the Local Agency Investment Fund), and are useful tools in adding diversity to the portfolio.

It is recommended that Metropolitan's Treasurer be authorized to invest in such instruments, but with certain restrictions to help ensure that these new options are integrated into the portfolio in a prudent and methodical manner. These restrictions are summarized in the attached table, which compares the state code to the proposed policy, and described in detail in the proposed Statement of Investment Policy (Attachment 1, with an unmarked version in Attachment 2).

To effectuate these changes, Metropolitan's Administrative Code would be revised as shown in Attachment 3, (with an unmarked version in Attachment 4), to reflect the range of investments authorized in the Government Code. In addition, the Administrative Code would be revised to authorize only those investments included in the Board approved Statement of Investment Policy. In this way, the Administrative Code does not need to be revised each time the Government Code is amended. Instead, investment alternatives would be approved at the time the Board approved the Statement of Investment Policy.

The portfolio and investments will continue to be reviewed by Metropolitan's internal Investment Committee on a regular basis, and monthly reports to your Board will include the impact of these changes as new investment instruments are utilized. As part of the ongoing review of the securities held in the portfolio, credit ratings will be evaluated and any securities that have been downgraded will be sold as described in the Statement of Investment Policy.

The revision to the Statement of Investment Policy and Administrative Code is exempt from the provisions of the California Environmental Quality Act because it can be seen with certainty that there is no possibility that the revision may have a significant effect on the environment.

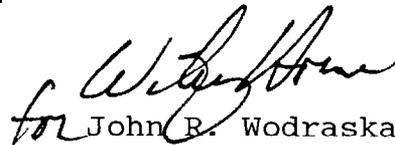
Board Committee Assignment

This letter is referred to the Finance and Insurance Committee for action 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

**FINANCE AND INSURANCE COMMITTEE FOR ACTION.**

It is recommended that Administrative Code Sections 5101 and 5114 be amended as shown in Attachment 4, and that the Board approve the attached Statement of Investment Policy, dated January 11, 1994.

  
for John R. Wodraska

BGT:jg

Attachments

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STATE AUTHORIZED INVESTMENTS VS. MWD STATEMENT OF INVESTMENT POLICY

Investment Type	Maximum Maturity (1)	Maximum Percent of Portfolio	Percent By any Issuer	Credit and Other Limitations
U.S. Treasury Obligations:				
State Code	5 years	100	-	
Current MWD Policy	2 years	100	-	
Proposed MWD Policy	5 years	100	-	
Federal Agencies:				
State Code	5 years	100	-	
Current MWD Policy	2 years	33	-	
Proposed MWD Policy	5 years	33	-	
State Obligations:				
State Code	5 years	-	-	
Current MWD Policy	-	-	-	Limit to one SWP bond or note in minimum denomination of any series
Proposed MWD Policy	-	-	-	Limit to one SWP bond or note in minimum denomination of any series
California Local Agency Obligations:				
State Code	5 years	-	-	
Current MWD Policy	-	-	-	Local agency obligations are not utilized by Treasurer
Proposed MWD Policy	-	-	-	Local agency obligations are not utilized by Treasurer
Bankers Acceptances:				
State Code	270 days	40	30	
Current MWD Policy	270 days	30	25	Thompson Bankwatch "C" for domestic and "III/III" for foreign banks
Proposed MWD Policy	270 days	30	25	Thompson Bankwatch "C" for domestic and "III/III" for foreign banks
Commercial Paper:				
State Code	180 days (2)	30	(3)	Highest short-term rating, "A" rated US companies with assets in excess of \$500 million
Current MWD Policy	180 days (2)	20	(3)	Highest short-term rating, "A" rated US companies with assets in excess of \$500 million
Proposed MWD Policy	180 days (2)	30	(3)	Highest short-term rating, "A" rated US companies with assets in excess of \$500 million
Negotiable Certificates of Deposit:				
State Code	5 years	30	-	National or state chartered bank.
Current MWD Policy	180 days	20	25	National or state chartered bank .
Proposed MWD Policy	180 days	20	25	National or state chartered bank .
Repurchase Agreements:				
State Code	1 year	-	-	"A" rated primary dealers, no commercial paper.
Current MWD Policy	1 year	30	-	"A" rated primary dealers, collateral equal to at least 101%, 102% if greater than 6 mo.
Proposed MWD Policy	1 year	30	-	"A" rated primary dealers, collateral equal to at least 101%, 102% if greater than 6 mo.
Reverse Repurchase Agreements:				
State Code	1 year	-	-	"A" rated primary dealers.
Current MWD Policy	1 year	30	-	Although authorized, the Treasurer does not currently utilize these investments.
Proposed MWD Policy	1 year	30	-	Although authorized, the Treasurer does not currently utilize these investments.
Time Deposits:				
State Code	-	-	-	Federal or state bank, savings association, credit union or insured industrial loan co.
Current MWD Policy	1 year	-	-	Thompson Bankwatch "C" or better and in existence for 5 years.
Proposed MWD Policy	1 year	-	-	Thompson Bankwatch "C" or better and in existence for 5 years.

STATE AUTHORIZED INVESTMENTS VS. MWD STATEMENT OF INVESTMENT POLICY

Investment Type	Maximum Maturity (1)	Maximum Percent of Portfolio	Percent By any Issuer	Credit and Other Limitations
Shares of Beneficial Interest (4):				
State Code	NA	15	-	Highest rating by 2 of 3 rating services, no load, manager with 5 years experience.
Current MWD Policy	NA	15	-	Highest rating by 2 of 3 rating services, no load, manager with 5 years experience.
Proposed MWD Policy	NA	15	-	Highest rating by 2 of 3 rating services, no load, manager with 5 years experience.
Medium Term Notes:				
State Code	5 years	30	-	"A" or better by a nationally recognized rating service.
Current MWD Policy	not authorized	NA	NA	NA
Proposed MWD Policy	5 years	20	-	Maturities of 2 to 5 years must be "AA" or higher.
Mortgage Backed and Asset Backed Obligations:				
State Code	5 years	20	-	"AA" rated security from an issuer with long-term debt rating of "A" or better.
Current MWD Policy	not authorized	NA	NA	NA
Proposed MWD Policy	5 years	10	-	"AAA" rated security from an issuer with long-term debt rating of "A" or better.

- (1) The State Code provides authority to the legislative body to set maturities beyond five years. Current Metropolitan policy provides for maturities longer than five years in the Deferred Compensation Fund, Water Revenue Bond Reserve Funds, and the Iron Mountain Landfill Closure/Postclosure Maintenance Fund. Under the proposed policy, only 10 percent of the portfolio could be invested in maturities longer than 3 years.
- (2) The average weighted days to maturity of the portfolio invested in Commercial Paper cannot exceed 31 days, if more than 15% of the portfolio is invested in Commercial Paper
- (3) No more than 10% of any issuer's outstanding Commercial Paper may be purchased.
- (4) Limited to funds investing in authorized instruments.

ATTACHMENT 1

## THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

STATEMENT OF INVESTMENT POLICY  
March 17, 1992 January 11, 1994 \*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, and further defined in this Statement of Investment Policy.

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~~  
March 17, 1992

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. Securities

The Treasurer may invest in any security authorized for investment under the State law, subject to the limitations described below:

5a. Maturity Limitations

a.(i) The Treasurer is authorized to invest District fund balances up to a maximum term of ~~two~~ five years except for moneys in the Employees' Deferred Compensation Fund, Water Revenue Bond Reserve Funds, and the Iron Mountain Landfill Closure/Postclosure Maintenance Fund which may exceed a ~~two~~ five year term. (~~Administrative Code Section 5101(b)(2)~~)

b.(ii) For certain instruments, the term of the investment is limited by market convention or as otherwise prescribed herein.

(iii) Not more than 10% of the portfolio shall consist of securities with a term to maturity in excess of three years, after deducting those Funds noted in a(i).

6b. 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.(i) The financial institution must have been in existence for at least five years.

b.(ii) Eligibility for deposits shall be limited to those financial institutions which maintain a rating equivalent to Keefe Thompson Bank Watch Service of "C" or better.

- ~~e.~~(iii) 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.~~(iv) 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))
- ~~a.~~(v) The total deposits shall not exceed ~~50 percent of an eligible financial institution's paid-up capital and surplus~~ Shareholder's equity of any depository bank. (Government Code Section 53638(b))
- ~~f.~~(vi) 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.~~(vii) In order to secure such deposits, the financial institution shall maintain in the collateral pool, eligible securities having a market value of at least 10 percent in excess of the total amount deposited. (Government Code Section 53652)
- ~~h.~~(viii) Promissory notes secured by real estate mortgages or deeds of trust may not be accepted as collateral.
- ~~i.~~(ix) 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.~~(x) The maximum term for time deposits shall be one year.

7c. Repurchase Agreements

A repurchase agreement is a purchase of authorized 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.(i) The percentage limit for investment in repurchase agreements shall be 30 percent of the total portfolio;
- b.(ii) Repurchase agreements shall not exceed one year in length;
- c.(iii) 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.(iv) 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.(v) Purchased securities are limited to those covered by the Bankruptcy Act amendments of 1984;
- f.(vi) 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.(vii) 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.(viii) Purchased securities shall have maturities within sixty months of the date of investment.

8d. 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.~~(i) 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.~~(ii) No more than 10 percent of the portfolio may be subject to reverse repurchase agreements at any time.

9e. 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))~~

10f. 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))~~

9. Negotiable Certificates of Deposit

Restrictions are as follows:

~~a.~~(i) 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.~~(ii) 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.~~(iii) The investment shall not exceed the shareholders' equity of any depository bank. For the purpose of this constraint, shareholders' equity shall be deemed to include capital notes and debentures. (Government Code Section 53638 (a))
- ~~e.~~(iv) The investment shall not exceed the total of the net worth of any depository savings and loan association, except that investments 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.~~(v) 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.~~(vi) The maximum maturity shall be limited to ~~six months~~ 180 days. ~~(Administrative Code Section 5101(b)(2)(vii))~~

~~h.~~ Bankers' Acceptances

Restrictions are as follows:

- ~~a.~~(i) 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.~~(ii) Eligibility shall be limited to those financial institutions which maintain a rating equivalent to Keefe Thompson Bank Watch Service of "C" for domestic bank and "III/III" for foreign banks if a rating service is utilized.

~~e.~~(iii) No more than 25 percent of this category of investments may be invested in any one commercial bank's acceptances.

~~d.~~(iv) The maximum maturity shall be limited to 270 days. (Government Code Sections 53601(f) and 53635(f))

13i. Commercial Paper

Restrictions are as follows:

~~a.~~(i) 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.~~(ii) 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))

~~e.~~(iii) 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.~~(iv) Investments in commercial paper shall not exceed ~~20~~ 30 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.~~(v) 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.~~(vi) 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.~~(vii) The total investment in an ~~eligible financial institution~~ the commercial paper of an issuer shall not exceed 25 percent of the total portfolio available for investment in this investment category.

~~14~~j. 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 investments is made. ~~(Administrative Code Section 5101(b)(2)(iv))~~

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

~~15~~k. 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~~l. 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.~~ investments authorized by this Statement of Investment Policy and specified by the State Government Code as authorized investments for such diversified management companies. 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~~ portfolio.

m. Medium Term Notes

Medium-term notes of a maximum of five years maturity issued by corporations organized and operating within the United States or be depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Maturities greater than two years must be rated "AA" or better. Purchases of medium-term notes may not exceed 20 percent of the portfolio.

n. Mortgage Obligations and Asset Backed Securities

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 of a maximum of five years maturity. Securities eligible for investment shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "AAA" by a nationally recognized rating service. Purchase of securities authorized by this subdivision may not exceed 10 percent of the portfolio.

~~176.~~ 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~~)

~~187.~~ Safekeeping

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

- 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.

#### 198. 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.
- c. Should a security held in the portfolio be downgraded below the minimum criteria included in this Statement of Investment Policy, the Treasurer shall sell such security in such a manner to minimize losses on the sale of such security. If the security is downgraded to a level that is less than investment grade and the term to maturity is greater than one year, the Treasurer shall sell such affected security within sixty days of the rating change.

#### 209. 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.

2110. 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 and~~ 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, including yield and earnings, and the status of cash by depository.

2211. 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~~ are consistent with Metropolitan's policies regarding business activities within countries that may jeopardize the safety and liquidity of District funds, or violate other Metropolitan policies. Such matters shall be periodically reported to the Finance and Insurance Committee. (~~Board Resolution 8109~~)

2312. Investment Policy Administration

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

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

STATEMENT OF INVESTMENT POLICY  
January 11, 1994 \*

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, and further defined in this Statement of Investment Policy.

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 March 17, 1992

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. Securities

The Treasurer may invest in any security authorized for investment under the State law, subject to the limitations described below:

a. Maturity Limitations

- (i) The Treasurer is authorized to invest District fund balances up to a maximum term of five years except for moneys in the Employees' Deferred Compensation Fund, Water Revenue Bond Reserve Funds, and the Iron Mountain Landfill Closure/Postclosure Maintenance Fund which may exceed a five year term.
- (ii) For certain instruments, the term of the investment is limited by market convention or as otherwise prescribed herein.
- (iii) Not more than 10% of the portfolio shall consist of securities with a term to maturity in excess of three years, after deducting those Funds noted in a(i).

b. 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:

- (i) The financial institution must have been in existence for at least five years.
- (ii) Eligibility for deposits shall be limited to those financial institutions which maintain a rating equivalent to Thompson Bank Watch Service of "C" or better.
- (iii) 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))

- (iv) 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))
- (v) The total deposits shall not exceed the Shareholders' equity of any depository bank.
- (vi) 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.
- (vii) 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.
- (viii) Promissory notes secured by real estate mortgages or deeds of trust may not be accepted as collateral.
- (ix) 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; offers significant assistance to Metropolitan, so as to provide for distribution of total deposits among eligible financial institutions.
- (x) The maximum term for time deposits shall be one year.

c. 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:

- (i) The percentage limit for investment in repurchase agreements shall be 30 percent of the total portfolio;

- (ii) Repurchase agreements shall not exceed one year in length;
- (iii) 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;
- (iv) 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;
- (v) Purchased securities are limited to those covered by the Bankruptcy Act amendments of 1984;
- (vi) 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;
- (vii) 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
- (viii) Purchased securities shall have maturities within sixty months of the date of investment.

d. 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.

- (i) 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.

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

e. 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.

f. 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.

g. Negotiable Certificates of Deposit

Restrictions are as follows:

- (i) Investments in negotiable certificates of deposit shall not exceed 20 percent of the total portfolio in effect immediately after any such investment is made.
- (ii) 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))
- (iii) The investment shall not exceed the shareholders' equity of any depository bank. For the purpose of this constraint, shareholders' equity shall be deemed to include capital notes and debentures. (Government Code Section 53638(a))
- (iv) The investment shall not exceed the total of the net worth of any depository savings and loan association, except that investments 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))

- (v) The total investment in an eligible financial institution shall not exceed 25 percent of the total portfolio available for investment in this investment category.
- (vi) The maximum maturity shall be limited to 180 days.

h. Bankers' Acceptances

Restrictions are as follows:

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

i. Commercial Paper

Restrictions are as follows:

- (i) 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))
- (ii) 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))
- (iii) 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))

- (iv) Investments in commercial paper shall not exceed 30 percent of the portfolio in effect immediately after any such investment is made, 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))
- (v) 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))
- (vi) 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))
- (vii) The total investment in the commercial paper of an issuer shall not exceed 25 percent of the total portfolio available for investment in this investment category.

j. 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 investments is made.

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

k. 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.

1. Shares of Beneficial Interest

The Treasurer may invest in shares of beneficial interest issued by eligible diversified management companies investing exclusively in investments authorized by this Statement of Investment Policy and specified by the State Government Code as authorized investments for such diversified management companies. 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 portfolio.

m. Medium Term Notes

Medium-term notes of a maximum of five years maturity issued by corporations organized and operating within the United States or be depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Maturities greater than two years must be rated "AA" or better. Purchases of medium-term notes may not exceed 20 percent of the portfolio.

n. Mortgage Obligations and Asset Backed Securities

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 of a maximum of five years maturity. Securities eligible for investment shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "AAA" by a nationally recognized rating service. Purchase of securities authorized by this subdivision may not exceed 10 percent of the portfolio.

6. 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.

7. Safekeeping

- a. All securities purchased shall be delivered against payment and held in safekeeping pursuant to a safekeeping agreement.
- 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.

8. 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.

9. 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.

10. Reporting Requirements

In accordance with 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 and date of maturity, 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, including yield and earnings, and the status of cash by depository.

11. 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 are consistent with Metropolitan's policies regarding business activities within countries that may jeopardize the safety and liquidity of District funds or violate other Metropolitan policies. Such matters shall be periodically reported to the Finance and Insurance Committee.

12. Investment Policy Administration

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

ATTACHMENT #3**§ 5101. Investment of Surplus Funds.**

(a) Pursuant to Government Code Section 53607, this Board hereby does delegate to the Treasurer of the District the authority to invest or to reinvest funds of the District subject to the terms and conditions set forth in this Section 5101. The Treasurer shall report each month transactions made pursuant to this delegation.

(b) The terms and conditions of this delegation to the Treasurer are as follows:

(1) The Treasurer shall assume full responsibility for all transactions hereby delegated.

(2) The Treasurer may invest such portion of any money in any sinking fund of the District, or any surplus moneys in the District's treasury not required for the immediate necessities of the District, as the Treasurer deems wise or expedient, in any of the following securities, securities authorized for investment by local agencies pursuant to Government Code Section 53601 or any successor statute; provided that such investments meet the requirements of the most current Statement of Investment Policy approved by the Board, pursuant to Section 5114 below. if they mature not later than 24 months from date of purchase, or such longer period upon Board approval for each such investment, unless at the time of purchase there is an agreement with the seller to repurchase such securities within 24 months; provided, however, that such 24-month restriction shall not apply to investments of moneys in the Waterworks Revenue Bond Reserve Fund, the Water Revenue Bonds, Issue of 1991 Reserve Fund, the Water Revenue Bonds, Issue of 1992 Reserve Fund, the Iron Mountain Landfill Closure/Postclosure Maintenance Fund, and the Employees' Deferred Compensation Funds:

~~(i) Bonds of the District.~~

~~(ii) 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.~~

~~(iii) Registered State warrants or treasury notes or bonds of this State for which the faith and credit of this State are pledged for the payment of principal and interest.~~

~~(iv) Farm loan bonds, consolidated farm loan bonds, collateral trust debentures, or other obligations issued under the Farm Credit Act of 1971, or in obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, the Tennessee Valley Authority, or in obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in participation certificates evidencing beneficial interests in obligations, or in the right to receive interest and principal collections therefrom, which obligations have been subjected by one or more government agencies to a trust or trusts for which any executive department, agency, or instrumentality of the United States (or the head thereof) has been named to act as trustee; provided that investments in securities listed in this Section 5101(b)(2)(iv) shall not exceed one-third of all investments in effect immediately after any such investment is made.~~

~~(v) Any other securities in which investment is authorized pursuant to Government Code Section 53601, upon approval of this Board.~~

~~(vi) Repurchase agreements of any securities authorized in subsections 5101(b)(2)(ii), 5101(b)(2)(iv), or 5101(b)(2)(vii) (other than commercial paper) provided that such investments in purchased securities shall not exceed 30 percent of all investments in effect immediately after any such investment is made, shall not exceed one year in length, and shall be made only with primary dealers in government securities or financial institutions with a Keefe Bank Watch Service, or equivalent, rating of B/C or better; provided further that investments in repurchase agreements 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; provided further that 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. Such custodian shall not be the dealer from which the securities were purchased. The repurchase agreement shall also provide a contractual right to liquidation of the purchased securities upon the bankruptcy, insolvency or other default of the counter party. Purchased securities shall include only securities maturing within 60 months of the inception of the investment.~~

~~(vii) Commercial paper, bankers' acceptances, and negotiable certificates of deposit; provided that investments in such securities shall not exceed 20 percent, 30 percent and 20 percent respectively of all investments in effect immediately after any such investment is made and subject to the provisions of Government Code Sections 53601 and 53635 as they existed on January 1, 1987; provided further, that investments in negotiable certificates of deposit shall not exceed six months in length, and shall be made only in financial institutions with a Keefe Bank Watch Service, or equivalent, rating of B/C or better; provided further, that investments in institutions rated B/C shall not exceed 15 percent of all investments in effect immediately after any such investment is made.~~

~~(viii) Deposits for purposes of investment in the Local Agency Fund of the State Treasury to the maximum amount permitted by State Treasury policy.~~

~~(ix) 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.~~

~~(x) 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.~~

(3) The Treasurer may make any investment by direct purchase of any issue of the specified securities at their original sale or after they have been issued.

(4) The available cash amount and maximum period for any such investment by the Treasurer shall be determined by the General Manager. The Treasurer shall not liquidate any such investment except:

(i) To meet the District's cash requirements, which shall be determined by the General Manager; or

(ii) To generate cash for reinvestment whenever the General Manager determines that such reinvestment is in the District's interest.

The Treasurer shall not exchange any such investment unless the General Manager determines that such exchange is in the District's interest.

Subject to the above provisions of this subsection 5101(b)(4), the Treasurer may enter into a reverse repurchase agreement, so long as the proceeds of the reverse repurchase agreement are invested solely to supplement the income normally received from the securities involved in the agreement.

(5) The General Counsel shall review monthly and, if appropriate, approve as to eligibility the securities invested in by the Treasurer in the preceding month and report the determinations to the Board.

(6) Investment of Deferred Compensation Fund.

(i) The Treasurer may invest funds held by the District pursuant to the District's deferred compensation plan in accordance with this Section 5101, and may liquidate such investments to comply with the provisions of the plan in accordance with the determinations of the General Manager.

(ii) The Treasurer may also deposit for purposes of investment funds held by the District, pursuant to the District's deferred compensation plans, in the Metropolitan Water District Federal Credit Union to the limit insured by the National Credit Union Share Insurance Fund.

(c) The Treasurer is authorized to enter into safekeeping agreements, in form approved by the General Counsel, and thereafter may deposit for safekeeping the bonds, notes, bills, debentures, obligations, certificates of indebtedness, warrants or other evidences of indebtedness in which the money of the District is invested pursuant to the terms and conditions of this Section 5101 with any state or national bank in this state with which there is a safekeeping agreement and in which the District maintains an active deposit supported by sufficient security, as required by law, to secure the amount of any collections which may be made by the bank from time to time pursuant to said safekeeping agreement and which are credited to such active deposits. Such bank may arrange for safekeeping of such securities in correspondent bank in New York City, designated by such bank and approved by the Treasurer. The Treasurer shall take from such California bank a receipt for securities so deposited either in definitive form in such bank or held in book-entry form on the books of the Federal Reserve Bank. All securities purchased shall be held in safekeeping under such

agreements and shall only be released from safekeeping pursuant to such agreements.

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§ 5114. Reporting Requirements of the Treasurer.

The Treasurer shall: ~~render an annual statement and a monthly report pursuant to the requirements of Government Code Section 53646,~~ as follows:

(a) ~~The Treasurer shall render an annual~~ Render, not less than annually, a Statement of Investment Policy ~~to~~ for approval by the Board.

(b) ~~The Treasurer shall~~ Render a monthly report to the General Manager and to the Board, showing the type of investment, ~~institution,~~ date of maturity, amount of deposit, current market value for all securities with a maturity of more than 12 months, and rate of interest. ~~The report shall specify in detail investments in repurchase or reverse repurchase agreements made pursuant to subdivision (i) of Section 53601 and subdivision (i) of Section 53635 of the Government Code.~~ The report shall also state its relationship to the statement of investment policy. A subsidiary ledger of investments may be used in the report in accordance with accepted accounting practices.

ATTACHMENT #4**§ 5101. Investment of Surplus Funds.**

(a) Pursuant to Government Code Section 53607, this Board hereby does delegate to the Treasurer of the District the authority to invest or to reinvest funds of the District subject to the terms and conditions set forth in this Section 5101. The Treasurer shall report each month transactions made pursuant to this delegation.

(b) The terms and conditions of this delegation to the Treasurer are as follows:

(1) The Treasurer shall assume full responsibility for all transactions hereby delegated.

(2) The Treasurer may invest such portion of any money in any sinking fund of the District, or any surplus moneys in the District's treasury not required for the immediate necessities of the District, as the Treasurer deems wise or expedient, in any of the securities authorized for investment by local agencies pursuant to Government Code Section 53601 or any successor statute; provided that such investments meet the requirements of the most current Statement of Investment Policy approved by the Board, pursuant to Section 5114 below.

(3) The Treasurer may make any investment by direct purchase of any issue of the specified securities at their original sale or after they have been issued.

(4) The available cash amount and maximum period for any such investment by the Treasurer shall be determined by the General Manager. The Treasurer shall not liquidate any such investment except:

(i) To meet the District's cash requirements, which shall be determined by the General Manager; or

(ii) To generate cash for reinvestment whenever the General Manager determines that such reinvestment is in the District's interest.

The Treasurer shall not exchange any such investment unless the General Manager determines that such exchange is in the District's interest.

Subject to the above provisions of this subsection 5101(b)(4), the Treasurer may enter into a reverse repurchase agreement, so long as the proceeds of the reverse repurchase agreement are

invested solely to supplement the income normally received from the securities involved in the agreement.

(5) The General Counsel shall review monthly and, if appropriate, approve as to eligibility the securities invested in by the Treasurer in the preceding month and report the determinations to the Board.

(6) Investment of Deferred Compensation Fund.

(i) The Treasurer may invest funds held by the District pursuant to the District's deferred compensation plan in accordance with this Section 5101, and may liquidate such investments to comply with the provisions of the plan in accordance with the determinations of the General Manager.

(ii) The Treasurer may also deposit for purposes of investment funds held by the District, pursuant to the District's deferred compensation plans, in the Metropolitan Water District Federal Credit Union to the limit insured by the National Credit Union Share Insurance Fund.

(c) The Treasurer is authorized to enter into safekeeping agreements, in form approved by the General Counsel, and thereafter may deposit for safekeeping the bonds, notes, bills, debentures, obligations, certificates of indebtedness, warrants or other evidences of indebtedness in which the money of the District is invested pursuant to the terms and conditions of this Section 5101 with any state or national bank in this state with which there is a safekeeping agreement and in which the District maintains an active deposit supported by sufficient security, as required by law, to secure the amount of any collections which may be made by the bank from time to time pursuant to said safekeeping agreement and which are credited to such active deposits. Such bank may arrange for safekeeping of such securities in a correspondent bank in New York City, designated by such bank and approved by the Treasurer. The Treasurer shall take from such California bank a receipt for securities so deposited either in definitive form in such bank or held in book-entry form on the books of the Federal Reserve Bank. All securities purchased shall be held in safekeeping under such agreements and shall only be released from safekeeping pursuant to such agreements.

**§ 5114. Reporting Requirements of the Treasurer.**

The Treasurer shall render an annual statement and a monthly report pursuant to the requirements of Government Code Section 53646, as follows:

(a) The Treasurer shall render an annual statement of investment policy to the Board.

(b) The Treasurer shall render a monthly report to the General Manager and to the Board, showing the type of investment, institution, date of maturity, amount of deposit, current market value for all securities with a maturity of more than 12 months, and rate of interest. The report shall also state its relationship to the statement of investment policy. A subsidiary ledger of investments may be used in the report in accordance with accepted accounting practices.

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