

- **Board of Directors**  
**Business and Finance Committee**

June 12, 2007 Board Meeting

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**8-1**

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**Subject**

Approve Metropolitan's annual Statement of Investment Policy and delegation of authority to the Treasurer to make investments on behalf of Metropolitan

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**Description**

Metropolitan's investment policy ([Attachment 1](#)) is guided in priority order by three principles governing public funds management:

1. Safety - Each investment is entered into considering the quality of the issuer, the underlying security or collateral, and diversification of the portfolio.
2. Liquidity - In an effort to ensure Metropolitan's portfolio is sufficiently liquid to meet current and anticipated operating requirements, each investment is made in consideration of the cash flow analysis prepared and updated on a regular basis.
3. Return - Investments are undertaken to produce an acceptable rate of return after first considering safety of principal, liquidity and the prudent investor principle. This principle is a standard of conduct where a person acts with care, skill and diligence when purchasing, selling, exchanging and managing funds.

There are a number of clarifications to the attached Statement of Investment Policy ([Attachment 1](#)), including:

- a. Bond Reserve Funds, highlighting the purpose of these funds, as well as the maturity and types of securities that can be held in these funds.
- b. Negotiable Certificates of Deposit. Staff recommends that the allowable maturity for negotiable certificates of deposit be extended from one year to two years. The ability to purchase 13-month certificates of deposit versus 12-month certificates of deposit is worth about .03 percent or 3 basis points. This equals approximately \$30,000 in additional investment earnings for each \$100 million invested in certificates of deposit. The difference in return for certificates of deposit from 13 to 24 months is greater and allows the Treasurer greater flexibility to improve the return of the portfolio, while minimizing risks.

All of the changes are highlighted in the attached Statement of Investment Policy ([Attachment 2](#)). With the exception of the changes noted above, all other modifications are clarifications of existing policy.

Delegation of Authority to Invest

In accordance with Section 53607 of the Government Code of the state of California, the authority to invest public funds is expressly granted to the Board of Directors and may be delegated to the Treasurer. The Board is required each year to renew the delegation to the Treasurer.

Per Section 5114 of the Metropolitan Water District Administrative Code, not less than annually, the Treasurer is required to render a Statement of Investment Policy ([Attachment 1](#)) to the Board and to obtain the Board's approval for annual delegation of authority to the Treasurer to make investments on behalf of Metropolitan. Metropolitan's Statement of Investment Policy is included as [Attachment 1](#).

## Policy

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Metropolitan Water District Administrative Code Section 5101: Investment of Surplus Funds

### California Environmental Quality Act (CEQA)

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CEQA determination for Option #1:

The proposed actions are not defined as a project under CEQA because they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed actions are not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

## Board Options

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### Option #1

Adopt the CEQA determination and staff's recommendations for changes to the Statement of Investment Policy ([Attachment 1](#)) and delegate authority to invest to the Treasurer. Please see [Attachment 2](#) for the red line version of the Statement of Investment Policy.

**Fiscal Impact:** Additional investment earnings of \$30,000 per \$100 million of investments in negotiable certificates of deposit

**Business Analysis:** Improves the clarity of the Statement of Investment Policy ([Attachment 1](#)) through various revisions to the policy, including an improved disclosure on the investment strategy for Bond Reserve Funds. It would also allow staff the flexibility to improve the return of the portfolio using longer maturity certificates of deposit.

### Option #2

Do not adopt staff's recommendations for changes to the Statement of Investment Policy ([Attachment 1](#)) and delegate authority to invest to the Treasurer.


**Fiscal Impact:** Forgo investment earnings by up to \$30,000 per year

**Business Analysis:** Allows the Treasurer to continue managing Metropolitan's investment portfolios but does not allow additional flexibility in managing negotiable certificates of deposit and does not improve the clarity of the Statement of Investment Policy ([Attachment 1](#)).

**Staff Recommendation**

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Option #1

  
\_\_\_\_\_  
Brian G. Thomas  
Chief Financial Officer

5/16/2007  
Date

  
\_\_\_\_\_  
Jeffrey Knightlinger  
General Manager

5/24/2007  
Date

**Attachment 1 – Statement of Investment Policy (clean copy)**

**Attachment 2 – Statement of Investment Policy (redline version)**

BLA #4852

**THE METROPOLITAN WATER DISTRICT OF  
SOUTHERN CALIFORNIA**

**STATEMENT OF INVESTMENT POLICY  
June 12, 2007\***

**I 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 re-delegation to the Treasurer. Investments by the Treasurer pursuant to the delegation hereby made by this Statement of Investment Policy are limited to those instruments specified by the Board in Section 5101 of the Metropolitan Water District Administrative Code, and as further defined in this Statement of Investment Policy.

**II STATEMENT OF OBJECTIVES**

Per Section 53600.5 of the California Government Code, the primary objective of the Treasurer shall be to safeguard the principal of the funds under his control when investing public funds. The secondary objective shall be to meet all liquidity requirements and the third objective shall be to achieve a return on the funds under his control.

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

1. Safety of Principal - Investments shall be undertaken in a manner which first seeks to ensure the preservation of principal in the portfolio. Each investment transaction shall be entered into after taking into consideration the quality of the issuer, the underlying security or collateral, and diversification of the portfolio. Market risk shall be reduced by performing continuous cash flow analysis to avoid the need to sell securities prior to maturity.
2. Liquidity - In an effort to ensure that Metropolitan's portfolio will be sufficiently liquid to meet current and anticipated operating requirements, a cash flow analysis will be performed on an ongoing basis. Investments shall be made so that the maturity date is compatible with cash flow needs and safety of principal.
3. Return on Investment - Investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity and the prudent investor standard.

The Investment Strategy is subordinate to the Statement of Objectives, i.e., implementation of the investment strategies listed below are not intended to supersede the objectives of Safety, Liquidity and Return.

\* Supersedes Statement of Investment Policy dated June 13, 2006.

Investment Strategy - The portfolio will be divided into long-term, short-term and bond reserves segments. The long-term segment of the portfolio will be actively managed and performance measured against the Merrill Lynch, Corporate and Government, 1 to 5 years, A Rated and above index or other index determined by the Business and Finance Committee. The duration of the long-term segment will be limited to the duration of the index plus or minus 1.5.

The short-term segment of the portfolio will be managed to meet Metropolitan's cash flow needs. The total return of the short-term segment of the portfolio will be measured against the total return of the Merrill Lynch 3-Month Treasury Bill index, or other index determined by the Business and Finance Committee. The maximum maturity of any security in the short-term segment will not exceed five years. The duration of the short-term segment is limited to the duration of the index plus or minus 0.2.

The bond reserves segment shall be invested in high quality securities, with the goal of earning a return that minimizes any potential negative arbitrage experienced by each bond reserve fund. The bond reserve funds may be invested in securities issued by a California municipality. Bond reserve funds may also invest in money market and fixed income investments. Please see section IV of the Statement of Investment Policy for additional information.

All investment activity shall be consistent with the prudent investor standard.

### **III PRUDENT INVESTOR STANDARD**

As applicable to Metropolitan and its fiduciaries, the prudent investor standard is a standard of conduct whereby any person authorized to make investment decisions on behalf of Metropolitan acts 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 Metropolitan, that a prudent person acting in 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 meet the liquidity needs of Metropolitan.

### **IV PORTFOLIO**

Any reference to the 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. The Treasurer may invest in any security authorized for investment under the state law, subject to the limitations described herein:

#### **1. Maturity Limitations**

- a. The Treasurer is authorized to invest special trust funds in investments with a term to maximum maturity in excess of five years. These funds include, but are not limited, to the following:

Water Revenue Bond Reserve Funds  
Escrow Funds  
Debt Service Funds  
Iron Mountain Landfill Closure  
Postclosure Maintenance Fund  
Lake Mathews Conservancy

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

2. Investment Transactions

- a. Information concerning investment opportunities and market developments will be gained by maintaining contact with the financial community.
- b. Confirmations of all investment transactions will be sent directly to the Controller for audit.
- c. Annually the Treasurer shall transmit a copy of the current Statement of Investment Policy to all approved dealers. Each dealer is required to return a signed statement indicating receipt and understanding of Metropolitan's investment policies.
- d. When practical, the Treasurer shall solicit more than one quotation on each trade. All investment trades will be awarded on a competitive bid basis.
- e. Each day's listing of market indices and quotations shall be recorded and retained by the Treasurer for a period of five years.

3. Sale of Securities

Securities may be sold to provide needed liquidity, to restructure the portfolio to reduce risk or to increase the expected return of the portfolio. In no instance shall a sale of securities be used for speculative purposes.

4. Prohibited Investments

Prohibited investments include inverse floaters, range notes, interest only strips derived from a pool of mortgages (Collateralized Mortgage Obligations), and any security that could result in zero interest accrual if held to maturity. (Zero interest accrual means the security has the potential to realize zero earnings depending upon the structure of the security. Zero coupon bonds and similar investments that start at a level below the face value are legal because their value does increase.)

5. Portfolio Adjustments

- a. Portfolio percentage limitations for each category of investment is applicable only at the date of purchase. Should an investment percentage of portfolio limitation be exceeded due to an incident such as a fluctuation in portfolio size, the portfolio manager is not required to sell the affected securities.
- b. Should a security held in the portfolio be downgraded below the minimum criteria included in this Statement of Investment Policy, the Treasurer or investment manager 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 the Treasurer shall sell such affected security immediately. If the security matures within 60 days of the rating change, the Treasurer may choose not to sell the security.

6. Safekeeping

- a. All securities transactions, including collateral for repurchase agreements entered into by Metropolitan shall be conducted on a delivery versus payment (DVP) basis.

- b. Securities will be held by an independent custodian designated by the Treasurer and held in safekeeping pursuant to a safekeeping agreement.
- c. All financial institutions which provide safekeeping services for Metropolitan shall be required to provide reports or safekeeping receipts directly to the Controller to verify securities taken into their possession.

## **V AUTHORIZED INVESTMENTS**

### **1. U.S. Government and Agencies**

- a. Investments in individual U.S. Treasury and Federal Agency securities shall not be subject to any maturity limitations, provided that the duration of the portfolio managed by any outside manager in which such investments are held does not exceed the applicable limitation described under “STATEMENT OF OBJECTIVES – Investment Strategy” above.
- b. Investments in Treasury or Federal Agency obligations shall not exceed 100 percent of all investments.
- c. United States Treasury securities consist of 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.
- d. Federal Agency securities consist of obligations, participations, or other instruments issued by United States federal agencies or government-sponsored enterprises, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

### **2. Bankers’ Acceptances**

Restrictions are as follows:

- a. Investments in prime bankers’ acceptances may not exceed 40 percent of the portfolio in effect on the date of purchase of any such investment.
- b. No more than 25 percent of this category of investments may be invested in any one commercial bank’s acceptances.
- c. Eligibility shall be limited to those financial institutions which maintain ratings equivalent to F1 by Fitch or better.
- d. The maximum maturity shall be limited to 180 days.

### **3. Negotiable Certificates of Deposit**

Restrictions are as follows:

- a. Investments in negotiable certificates of deposit may not exceed 30 percent of the total portfolio in effect on the date of purchase of any such investment .
- b. The total investment in an eligible financial institution shall not exceed 25 percent of the total portfolio available for investment in this investment category.

- c. To be eligible, a negotiable 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.
- d. Eligibility shall be limited to those financial institutions which maintain ratings equivalent to F1 by Fitch or better.
- e. 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.
- f. The investment shall not exceed the total of the net worth of any depository savings and loan association, except that investments up to a total of \$500,000 may be made to a savings and loan association without regard to the net worth of that depository, if such investments are insured or secured as required by law.
- g. The maximum maturity shall be limited to two years.

4. 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 may be purchased.
- b. Investments in commercial paper shall not exceed 25 percent of the portfolio in effect on the date of purchase of any such investment.
- c. Each investment shall not exceed 270 days maturity.
- d. No more than 10 percent of the outstanding commercial paper of an issuing corporation may be purchased.

In addition, the entity that issues the commercial paper shall meet all of the following conditions in Option 1 or Option 2:

Option 1:

Is organized and operating in the United States as a general corporation and has total assets in excess of \$500 million.

Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized rating agency.



## Option 2:

Is organized within the United States as a special purpose corporation, trust or limited liability company.

Has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit or surety bond.

Has commercial paper that is rated "A-1" or higher by a nationally recognized rating agency.

5. Repurchase Agreements

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

- a. The percentage limit for investment in repurchase agreements shall be 50 percent of the total portfolio.
- b. Purchases of repurchase agreements will be limited to a maximum maturity of one year.
- 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 shall provide for purchased securities with a market value at least 102 percent of the amount of the invested funds. Value shall be adjusted not less than quarterly.
- e. Purchased securities are limited to Treasury bills, bonds and notes, or other investments that are direct obligations of or fully guaranteed as to principal and interest by the United States or any agency thereof; negotiable certificates of deposit; and bankers' acceptances eligible for acceptance under Federal Reserve rules. Zero coupon and stripped coupon instruments are not acceptable.
- f. Such investments shall provide for transfer of ownership and possession of the purchased securities either to Metropolitan directly or to a custodian depository institution which shall take record title and shall establish and maintain a sub-account in its financial records for the securities in Metropolitan'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.
- h. Purchased securities shall have maturities within 60 months of the date of investment.

6. 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 Board of Directors, 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. These agreements shall only be performed with primary dealers of the Federal Reserve Bank of New York.
- b. Investments in reverse repurchase agreements are limited to 20 percent of the base value of the portfolio. For the purpose of this constraint, base value of the portfolio shall be the total of Metropolitan's cash and securities under management by the Treasurer, excluding any amounts obtained through selling securities by reverse purchase agreements, securities lending agreements, or similar borrowing methods.
- c. The investment purchased with the proceeds of a reverse repurchase agreement must match or closely approximate the maturity of the reverse repurchase agreement(s).
- d. Purchases of securities with proceeds from reverse repurchase agreements may not be subject to a reverse repurchase agreement.
- e. Reverse repurchase agreements will be limited to a maximum maturity of 92 days.
- f. Securities used to make reverse repurchase agreements must be paid for and held for a minimum of 30 days prior to the transaction.

7. 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 the 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 rating equivalent to "F1" by Fitch or better. Credit requirements may be waived for a \$100,000 time deposit that is federally insured.
- 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.
- 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.
- e. The total deposits shall not exceed the shareholders' equity of any depository bank.

- f. 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.
- g. Promissory notes secured by real estate mortgages or deeds of trust may not be accepted as collateral.
- h. 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 Metropolitan or a member public agency; or offers significant assistance to Metropolitan, in order to provide for distribution of total deposits among eligible financial institutions.
- i. Purchased time deposits will be limited to a maximum maturity of one year.

8. Medium-Term Notes

Restrictions are as follows:

- a. Investment in medium-term notes are limited to corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.
  - b. Notes eligible for investment shall be rated in a rating category of at least "A" or its equivalent or better by a nationally recognized rating service.
  - c. Purchases of medium-term notes may not exceed 30 percent of the portfolio.
  - d. Purchases of medium-term notes will be limited to a maximum maturity of five years.
  - e. The total investment in the medium-term notes of an issuer shall not exceed 25 percent of the total portfolio available for investment in this investment category.
9. Mortgage Obligations and Asset Backed Securities

This category of investments includes any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond.

Restrictions are as follows:

- a. Mortgage pass-through, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate are subject to a maximum maturity of five years.
- b. 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.
- c. Purchase of securities authorized by this subdivision may not exceed 20 percent of the portfolio.

- d. The total investment in the mortgage-backed or asset-backed securities of an issuer shall not exceed 25 percent of the total portfolio available for investment in this category.

10. 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.

11. 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.

12. Shares of Beneficial Interest

The Treasurer may invest in shares of beneficial interest issued by eligible diversified management companies that (1) invest in authorized securities such as United States Treasury notes, bonds, bills; registered state warrants or treasury notes and bonds for the State of California, obligations of local agencies; commercial paper; negotiable certificates of deposit; repurchase agreements or reverse repurchase agreements and medium term notes or (2) are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. These companies must meet the following criteria:

- a. Attain the highest ranking of the highest letter and numerical rating provided by not less than two nationally recognized statistical rating agencies.
- b. Retain an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in authorized securities and obligations listed above.
- c. Assets under management shall be in excess of \$500 million.
- d. The purchase price of the shares of beneficial interest purchased shall not include any commission, that the companies may charge and shall not exceed 20 percent of the Portfolio. However, no more than 10 percent of the Portfolio may be invested in shares of beneficial interest of any one mutual fund described above.

13. Investment Contracts

Funds held by a trustee or fiscal agent and pledged to the payment or security of bonds may be invested in accordance with the statutory provisions governing the issuance of those bonds or other forms of debt. These funds may also be invested in accordance with the ordinance, resolution, indenture or agreement executed by Metropolitan. Other forms of debt include, but are not limited to, the following: (a) obligations under a lease, and (b) an installment sale or other agreements. Eligible investments would consist of the following:

Guaranteed Investment Contracts

Forward Delivery Agreements collateralized with U.S. Treasury or Agency Securities

Other investment contracts collateralized with U.S. Treasury or Agency Securities

These investments may be purchased with maturities in excess of five years as noted in Section IV 1. of this policy.

14. California Local Agency Securities

- a. Investments in California local agency securities shall not be subject to any maturity limitations, provided that the duration of the portfolio managed does not exceed the applicable limit described under “STATEMENT OF OBJECTIVES – Investment Strategy.”
- b. California municipal securities with a maturity in excess of five years must have a credit rating of AAA (may be insured) and an underlying credit rating of A or better by a nationally recognized rating service.

**VI REPORTING**

In accordance with Administrative Code Section 5114, the Treasurer shall submit a monthly report to the Board 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, 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.

**VII MONITORING SAFETY AND LIQUIDITY OF DISTRICT FUNDS**

The Treasurer shall monitor or cause to be monitored the extent to which financial institutions with which Metropolitan maintains deposits or investments are consistent with Metropolitan’s policies regarding business activities within countries that may jeopardize the safety and liquidity of Metropolitan funds or violate other Metropolitan policies. Such matters shall be reported to the Business and Finance Committee as part of the Treasurer’s monthly report.

**VIII ADMINISTRATION**

The Treasurer may, at any time, establish more restrictive requirements for the securities approved for investment as deemed appropriate in this Statement of Investment Policy. These restrictions may include, but are not limited to, higher credit ratings, lower percentage limits by security type or issuer, shorter maturities and additional collateral for repurchase agreements.

**THE METROPOLITAN WATER DISTRICT OF  
SOUTHERN CALIFORNIA**

**STATEMENT OF INVESTMENT POLICY  
June 12, 2007\***

**I INVESTMENT AUTHORITY**

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\* Supersedes Statement of Investment Policy dated June 13, 2006.

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The short-term segment of the portfolio will be managed to meet Metropolitan's cash flow needs. The total return of the short-term segment of the portfolio will be measured against the total return of the Merrill Lynch 3-Month Treasury Bill index, or other index determined by the ~~Budget, Business and Finance, Investment and Insurance~~ Committee. The maximum maturity of any security in the short-term segment will not exceed 5 years. The duration of the short-term segment is limited to the duration of the index plus or minus 0.2.

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6. Safekeeping

- a. All securities transactions, including collateral for repurchase agreements entered into by Metropolitan shall be conducted on a delivery versus payment (DVP) basis.



- b. Securities will be held by an independent custodian designated by the Treasurer and held in safekeeping pursuant to a safekeeping agreement.
- c. All financial institutions which provide safekeeping services for Metropolitan shall be required to provide reports or safekeeping receipts directly to the Controller to verify securities taken into their possession.

## V AUTHORIZED INVESTMENTS

### 1. U.S. Government and Agencies

- a. Investments in individual U.S. Treasury and Federal Agency securities shall not be subject to any maturity limitations, provided that the duration of the portfolio managed by any outside manager in which such investments are held does not exceed the applicable limitation described under “STATEMENT OF OBJECTIVES—Investment Strategy” above.
- b. Investments in Treasury or Federal Agency obligations shall not exceed 100 percent of all investments.
- c. United States Treasury securities consist of 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.
- d. Federal Agency securities consist of obligations, participations, or other instruments issued by United States federal agencies or government-sponsored enterprises, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

### 2. Bankers' Acceptances

Restrictions are as follows:

- a. Investments in prime bankers' acceptances may not exceed 40 percent of the portfolio in effect on the date of purchase of any such investment.
- b. No more than 25 percent of this category of investments may be invested in any one commercial bank's acceptances.
- c. Eligibility shall be limited to those financial institutions which maintain ratings equivalent to F1 by Fitch or better.
- d. The maximum maturity shall be limited to 180 days.

### 3. Negotiable Certificates of Deposit

Restrictions are as follows:

- a. Investments in negotiable certificates of deposit may not exceed 30 percent of the total portfolio in effect on the date of purchase of any such investment .

- b. The total investment in an eligible financial institution shall not exceed 25 percent of the total portfolio available for investment in this investment category.
- c. To be eligible, a negotiable 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.
- d. Eligibility shall be limited to those financial institutions which maintain ratings equivalent to F1 by Fitch or better.
- e. 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.
- f. The investment shall not exceed the total of the net worth of any depository savings and loan association, except that investments up to a total of \$500,000 may be made to a savings and loan association without regard to the net worth of that depository, if such investments are insured or secured as required by law.
- g. The maximum maturity shall be limited to ~~one~~ two years.

#### 4. 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 may be purchased.
- b. Investments in commercial paper shall not exceed 25 percent of the portfolio in effect on the date of purchase of any such investment .
- c. Each investment shall not exceed 270 days maturity.
- d. No more than 10 percent of the outstanding commercial paper of an issuing corporation may be purchased.

In addition, the entity that issues the commercial paper shall meet all of the following conditions in option 1 or option 2:

##### Option 1:

Is organized and operating in the United States as a general corporation and has total assets in excess of \$500 million.

Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized rating agency.

##### Option 2:

Is organized within the United States as a special purpose corporation, trust or limited liability company.

Has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit or surety bond.

Has commercial paper that is rated "A-1" or higher by a nationally recognized rating agency.

5. Repurchase Agreements

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

- a. The percentage limit for investment in repurchase agreements shall be 50 percent of the total portfolio.
- b. Purchases of repurchase agreements will be limited to a maximum maturity of one year.
- 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 shall provide for purchased securities with a market value at least 102 percent of the amount of the invested funds. Value shall be adjusted not less than quarterly.
- e. Purchased securities are limited to Treasury bills, bonds and notes, or other investments that are direct obligations of or fully guaranteed as to principal and interest by the United States or any agency thereof; negotiable certificates of deposit; and bankers' acceptances eligible for acceptance under Federal Reserve rules. Zero coupon and stripped coupon instruments are not acceptable.
- f. Such investments shall provide for transfer of ownership and possession of the purchased securities either to Metropolitan directly or to a custodian depository institution which shall take record title and shall establish and maintain a sub-account in its financial records for the securities in Metropolitan'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.
- h. Purchased securities shall have maturities within 60 months of the date of investment.

6. 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 Board of Directors, 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. These agreements shall only be performed with primary dealers of the Federal Reserve Bank of New York.

- b. ~~Limit investments~~Investments in reverse repurchase agreements are limited to 20 percent of the base value of the portfolio. For the purpose of this constraint, base value of the portfolio shall be the total of Metropolitan's cash and securities under management by the Treasurer, excluding any amounts obtained through selling securities by reverse purchase agreements, securities lending agreements, or similar borrowing methods.
- c. ~~Match or closely approximate the maturity of the~~The investment purchased with the proceeds of a reverse repurchase agreement must match or closely approximate the maturity of the~~with the maturity of~~ reverse repurchase agreement(s).
- d. Purchases of securities with proceeds from reverse repurchase agreements may not be subject to a reverse repurchase agreement.
- e. Reverse repurchase agreements will be limited to a maximum maturity of 92 days.
- f. Securities used to make reverse repurchase agreements must be paid for and held for a minimum of 30 days prior to the transaction.

7. 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 the 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 rating equivalent to "F1" by Fitch or better. Credit requirements may be waived for a \$100,000 time deposit that is federally insured.
- 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.
- 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.
- e. The total deposits shall not exceed the shareholders' equity of any depository bank.
- f. 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.
- g. Promissory notes secured by real estate mortgages or deeds of trust may not be accepted as collateral.
- h. 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 Metropolitan or a

member public agency; or offers significant assistance to Metropolitan, ~~so as to~~ in order to provide for distribution of total deposits among eligible financial institutions.

- i. Purchased time deposits will be limited to a maximum maturity of one year.
8. Medium-Term Notes

Restrictions are as follows:

- a. Investment in medium-term notes are limited to corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.
  - b. Notes eligible for investment shall be rated in a rating category of at least "A" or its equivalent or better by a nationally recognized rating service.
  - c. Purchases of medium-term notes may not exceed 30 percent of the portfolio.
  - d. Purchases of medium-term notes will be limited to a maximum maturity of five years.
  - e. The total investment in the medium-term notes of an issuer shall not exceed 25 percent of the total portfolio available for investment in this investment category.
9. Mortgage Obligations and Asset Backed Securities

This category of investments includes aAny mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond.

Restrictions are as follows:

- a. Mortgage pass-through, collateralized mortgage obligation [See p.3], mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate are subject to a maximum maturity of five years.
  - b. 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.
  - c. Purchase of securities authorized by this subdivision may not exceed 20 percent of the portfolio.
  - d. The total investment in the mortgage-backed or asset-backed securities of an issuer shall not exceed 25 percent of the total portfolio available for investment in this category.
10. 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.

11. ~~Metropolitan Water District Federal Credit Union Deposits~~

~~Deposits for the purpose of investment of funds held pursuant to Metropolitan'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.~~

12. Securities Related to the State Water Project

Investments in Sstate 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.

13. Shares of Beneficial Interest

The Treasurer may invest in shares of beneficial interest issued by eligible diversified management companies that (1) invest in authorized securities such as United States Treasury notes, bonds, bills; registered state warrants or treasury notes and bonds for the State of California, obligations of local agencies; commercial paper; negotiable certificates of deposit; repurchase agreements or reverse repurchase agreements and medium term notes or (2) are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. These companies must meet the following criteria:

a. Attain the highest ranking of the highest letter and numerical rating provided by not less than two nationally recognized statistical rating agencies.

b. Retain an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in authorized securities and obligations listed above.

c. Assets under management shall be in excess of \$500 million.

d. The purchase price of the shares of beneficial interest purchased shall not include any commission, that the companies may charge and shall not exceed 20 percent of ~~the agency's the Portfolio surplus money that may be invested.~~ However, no more than 10 percent of the ~~agency's surplus funds~~ Portfolio may be invested in shares of beneficial interest of any one mutual fund described above.

14. Investment Contracts

Funds held by a trustee or fiscal agent and pledged to the payment or security of bonds may be invested in accordance with the statutory provisions governing the issuance of those bonds or other forms of debt. These funds may also be invested in accordance with the ordinance, resolution, indenture or agreement executed by Metropolitan. Other forms of debt include, but are not limited to, the following: (a) obligations under a lease and, (b) an installment sale or other agreements. Eligible investments would consist of the following:

Guaranteed Investment Contracts

Forward Delivery Agreements collateralized with U.S. Treasury or Agency Securities

Other investment contracts collateralized with U.S. Treasury or Agency Securities

These investments may be purchased with maturities in excess of 5 years as noted in Section IV 1. of this policy.

15. California Local Agency Securities

a. Investments in California local agency securities shall not be subject to any maturity limitations, provided that the duration of the portfolio managed does not exceed the applicable limit described under "STATEMENT OF OBJECTIVES-Investment Strategy.

b. California municipal securities with a maturity in excess of 5 years must have a credit rating of AAA (may be insured) and an underlying credit rating of A or better by a nationally recognized rating service.

**VI REPORTING**

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 ~~Chief Executive Officer~~General Manager indicating the types of investment by fund and date of maturity, and shall provide the current market value of all securities, rates of interest, and expected yield to maturity. The Treasurer shall also submit a monthly summary report to the Board of Directors via the ~~Chief Executive Officer~~General Manager showing investment activity, including yield and earnings, and the status of cash by depository.

**VII MONITORING SAFETY AND LIQUIDITY OF DISTRICT FUNDS**

The Treasurer shall monitor or cause to be monitored the extent to which financial institutions with which Metropolitan maintains deposits or investments are consistent with Metropolitan's policies regarding business activities within countries that may jeopardize the safety and liquidity of Metropolitan funds or violate other Metropolitan policies. Such matters shall be reported to the ~~Budget, Finance, Investment and Insurance~~Business and Finance Committee as part of the Treasurer's monthly report.

**VIII ADMINISTRATION**

The Treasurer may, at any time, establish more restrictive requirements for further restrictfurther restrict the securities approved for investment as deemed appropriate in this Statement of Investment Policy. These restrictions may include, but are not limited to, higher credit ratings, lower percentage limits by security type or issuer, a shorter maturities and additional collateral for repurchase agreements.