

RESOLUTION NO. 2019.05

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE EAST VALLEY WATER DISTRICT
ESTABLISHING AN INVESTMENT POLICY FOR PUBLIC FUNDS**

WHEREAS, the Board of Directors of the East Valley Water District (the "District") desires to maintain a formal policy regarding the investment of public funds pursuant to the requirements of Government Code Sections 5921 and 53600 et seq.; and

WHEREAS, the Board of Directors of the District has employed qualified staff to invest those funds in accordance with the law and the terms of the District's investment policy, as well as in a manner that advances the District's investment objectives of safety, liquidity and yield; and

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the District that the East Valley Water District Investment Policy attached hereto as Exhibit "A" and incorporated in full herein by this reference is hereby adopted as the formal investment policy of the District; and

BE IF FURTHER RESOLVED that the General Manager/CEO and the Treasurer/Chief Financial Officer of the District are hereby authorized and directed to invest the District's funds in a manner consistent with the terms hereof and in accordance with any further directions of the District's Board of Directors; and

BE IT FURTHER RESOLVED that this Resolution supersedes Resolution No. 2018.08 adopted by the Board of Directors of the District on April 25, 2018. This Resolution shall take effect on July 1, 2019.

ADOPTED this 24th day of April 2019.

Ayes: Directors: Carrillo, Coats, Goodrich, Morales, Smith
Noes: None
Absent: None
Abstain: None



Chris Carrillo,
Board President

April 24, 2019

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of Resolution 2019.05 adopted by the Board of Directors of East Valley Water District at its Regular Meeting held April 24, 2019.



John Mura,
Secretary, Board of Directors

EXHIBIT "A"

Statement of Investment Policy 7.6



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Purpose

The purpose of this policy is to establish guidelines for the prudent investment of East Valley Water District (District) funds in conformance with California Government Code requirements. Funds will be managed to provide for daily cash flow requirements and to meet the objectives of this policy.

Policy

It is the policy of the District to invest public funds in a manner which ensures the safety and preservation of capital while meeting reasonably anticipated operating needs, achieving a reasonable rate of return, and conforming to all state and local statutes governing the investment of public funds.

Scope

This policy applies to the investment of all operating funds; it does not apply to investments held in trust for the District retirement plan, or post-employment health benefits, as these investments are subject to policies established by the plan trustees. Indenture agreements specify how bond proceeds will be invested, but generally they will be invested in securities permitted by this policy. Invested funds are accounted for, and are identified in, the District's Comprehensive Annual Financial Report.

Objectives

As specified in CGC §53600.5, when investing and managing public funds, the primary objectives, in priority order, of the District's investment activities shall be:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the East Valley Water District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by mitigating certain risks. Some of those risks are:
 - A. Interest Rate Risk - the District will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:



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- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operation and avoiding the need to sell securities on the open market prior to maturity.
 - Investing operating funds primarily in short-term securities money market mutual funds, or investment pools.
- B. Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligations, will be reduced by:
- Limiting investments to higher rated securities as further described in this policy.
 - Diversifying the investment portfolio so that potential losses on individual securities will be reduced.
2. **Liquidity:** The investment portfolio will remain sufficiently liquid to enable the East Valley Water District to meet all operating requirements that might be reasonably anticipated.
3. **Return on Investments:** The investment portfolio shall be designed with the objective of attaining the best yield or returns on investments, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives.

Prudence

The standard of prudence to be used by District officials involved in the investment program shall be the “prudent investor” standard and shall be applied in the context of managing the overall portfolio. The meaning of the standard of prudent investor is explained in CGC Section 53600.3, which states that “when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.”



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The CFO/Treasurer and delegated investment officers, acting in accordance with written procedures and this Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Delegation of Authority

The authority of the District's Board of Directors to invest District funds is derived from California Government Code (CGC) section 53601. Section 53607 of the CGC grants the Board the authority to delegate that authority to the District's Chief Financial Officer (CFO)/Treasurer. Such delegation shall expire and be renewed annually, by Board Resolution, in conjunction with the annual investment policy review.

The CFO/Treasurer shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officials in the absence of the Treasurer. All transactions will be reviewed by the Treasurer on a regular basis to ensure compliance with this Policy. No Person may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established by the Treasurer.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the District's General Manager/CEO any material financial interest in financial institutions that conduct business within the District, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the District.

All bond issue participants, including but not limited to, underwriters, bond counsel, financial advisors, brokers, and dealers will disclose any fee sharing arrangements or fee splitting to the CFO/Treasurer prior to the execution of any transaction.



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Authorized Broker-Dealers

The CFO/Treasurer will maintain a list of approved financial institutions authorized to provide investment services to the public agency in the State of California. These may include primary dealers authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York, or regional dealers that qualify under Securities and Exchange Commission Rule 15C33-1 (uniform net capital rule).

All Broker Dealers who desire to conduct investment transactions with the District must supply the CFO/Treasurer with the following:

- Audited Financial Statements
- Proof of Financial Industry Regulatory Authority (FINRA) certification
- Proof of State of California registration
- Completed broker/dealer questionnaire (except Certificate of Deposit counterparties)
- Certification of having read the District's investment policy and depository contracts

Authorized and Suitable Investments

The East Valley Water District as empowered by California Government Code (CGC) §53600, et. Seq., establishes the following as authorized investments:

- Local Agency Investment Fund (LAIF).** The District may invest in the Local Agency Investment Fund established by the State Treasurer for the benefit of local agencies (CGC §16429.1). The fund must have 24 hour liquidity. There is no limitation on the percentage of the District portfolio that may be invested with LAIF, however, LAIF does impose a maximum deposit of \$65 million.
- United States Treasury Securities.** United States Treasury notes, bonds, or bills for which the full faith and credit of the United States is pledged for the payment of principal and interest (CGC §53601(b)). There is no limitation as to the percentage of the District's portfolio that may be invested in these securities, however, maximum investment maturities are limited to five years.
- Federal Agency Obligations.** The District is permitted to invest in federal agency or United States government sponsored enterprise obligations, participations, mortgage backed securities or other instruments, including those issued by or fully



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guaranteed as to principal and interest by Federal agencies or United States government sponsored enterprises (CGC §53601(f)). Maximum maturity is limited to five years. There is no limitation as to the percentage of the District’s portfolio that may be invested in agencies.

- D. Bank Depository Accounts.** The District may invest in insured or collateralized certificates of deposit, savings accounts, market rate accounts, or other bank deposits issued by a state or national bank, savings and loan associations, or state or federal credit unions located in California (CGC §53630 et. Seq.). A written depository contract is required with all institutions that hold District deposits requiring that deposits be collateralized in accordance with the CGC. The Treasurer may waive collateral requirement for the portion of any deposit insured pursuant to federal law. Securities placed in a collateral pool must provide coverage for at least 110% of all deposits that are placed in the institution. Acceptable pooled collateral is governed by CGC §53651. Real estate mortgages are not considered acceptable collateral by the District, even though they are permitted in CGC §53651(m).

All financial institutions holding District deposits are required to provide the District with a regular statement of pooled collateral. This report will state that they are meeting the 110% collateral rule, a listing of all collateral with location and market value, plus an accountability of the total amount of deposits secured by the pool.

Deposits are allowable in any institution that insures its deposits with the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA), and a maximum deposit of up to the federal insurance limits may be deposited in any one institution without collateral. No bank shall receive District deposits in excess of the federal insurance limits that has a long-term debt rating by Moody’s investors Service, Standard & Poor’s, or Fitch Ratings of less than ‘A’. The maximum maturity is restricted to three years.

In accordance with CGC §53638, no deposit shall exceed the shareholder’s equity of any depository bank, nor shall a deposit exceed the total net worth of any institution. No deposits shall be made at a state or federal credit union if a member of the Board of Directors or the General Manager/CEO or CFO/Treasurer of the District serves on the Board of Directors or a committee of the credit union.

- E. Municipal Securities.** Registered treasury notes or bonds issued by the State of California or any of the other 49 states, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by a



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state or by a department, board, agency, or authority of any states (CGC §53601 (c)(d)).

Bonds, notes, or other evidence of debt issued by a local agency within the State of California, including issues by East Valley Water District. This includes bonds payable solely out of revenue from a revenue-producing property owned, controlled, or operated by the local agency, or by an authority of the local agency (CGC §53601 (a)(e)).

Securities must have a debt rating of at least 'AA' by a Nationally Recognized Statistical Rating Organization (NRSRO). Maximum maturity is limited to five years from the date of purchase, and holdings of this type of security are limited to a maximum of 20% of the District's investment portfolio.

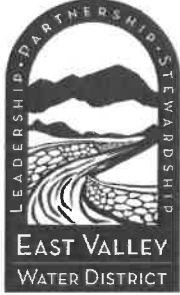
- F. **Commercial Paper.** Commercial paper of 'prime' quality of the highest ranking of the highest letter and number rating as provided for by a NRSRO and must be issued only by general corporations that are organized and operating within the United States and have total assets in excess of \$500 million. The general corporation must have an 'A' rating or better on debt other than commercial paper, if any, assigned by an NRSRO (CGC §53601(h)).

Purchases shall not exceed 5% of the outstanding paper of the issuing corporation, and maximum maturity is restricted to 270 days. This type of investment shall not exceed 15% of the District's investment portfolio.

- G. **Placement Service Deposits.** The District may invest in Certificates of Deposit placed with a private sector entity that assists in the placement of deposits with eligible financial institutions located in the United States (CGC §53601.8). The full amount of the principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. Placement Service Deposits, in combination with bank certificates of deposit shall not exceed 25% of the value of the District's investments at any time. The maximum investment maturity will be restricted to three years.

- H. **Medium Term Notes.** The District may invest in corporate and depository institution debt securities issued by 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 (CGC §53601(k)).

Securities eligible for investment under this section shall be rated 'AA' or better by



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an NRSRO. The maximum maturity is restricted to five years, and investment in this category of security shall not exceed 30% of the District's investible funds, and not more than 5% from a single issuer.

- I. **Money Market Funds.** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission (CGC §53601(l)(2)).

The Company shall either 1) have attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs or 2) retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). A maximum of 15% of the District's investible funds can be invested in Money Market Mutual funds.

- J. **Local Government Investment Pools.** Shares of beneficial interest in an investment pool created by a joint powers authority organized pursuant to CGC §6509.7 and that invest in securities and obligations authorized in the California Government Code (CGC §53601(p)). Investment is limited to pools that seek to maintain a stable Net Asset Value (NAV) and must be rated at least 'AA' or better by a NRSRO. A maximum of 25% of the District's portfolio may be invested in Local Government Investment Pools.

- K. **Prohibited Investments.** Under the provision of CGC §53601.6 and §53631.5, the District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity.

Review of Investment Portfolio

The securities held by East Valley Water District must be in compliance with the above section 'Authorized and Suitable Investments' at the time of purchase. Because some securities may not comply with this section subsequent to the date of purchase, the CFO/Treasurer shall at least quarterly review the portfolio to identify those securities that do not comply. The CFO/Treasurer shall establish procedures to report to the District's Board of Directors, major and critical incidences of non-compliance identified through the review of the portfolio.



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Investment Pools / Mutual Funds

When the District's investment portfolio includes Investment Pools and Mutual Funds, as permitted in the section 'Authorized and Suitable Investments', the CFO/Treasurer shall as a matter of due diligence, monitor the assets held by the pools/funds. At least quarterly, the CFO/Treasurer will conduct an investigation to determine the following:

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

Safekeeping and Custody Agreements

To protect against potential losses caused by collapse of individual securities dealers, all securities owned by the East Valley Water District shall be kept in safekeeping by a third party bank trust department, acting as agent for the District under the terms of a custody agreement executed by the bank and the District. All securities will be received and delivered using standard delivery versus payment (DVP) procedures with the Districts custodial bank, and evidenced by safekeeping receipts.



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Diversification and Maximum Maturities

The District will diversify its investment by security type and institution. With the exception of the US Government, its agencies and instrumentalities, and the Local Agency Investment Fund, no more than 5% of the District's total investment portfolio will be invested in a single security type with a single financial institution.

To the extent possible, East Valley Water District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than 5 years from the date of purchase. Reserve funds may be invested in securities exceeding 5 years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Internal Controls

The CFO/Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft, or misuse. The internal control structures shall be designed to provide reasonable assurance that these objectives are met. Internal controls shall be in writing and shall address the following: separation of transaction authority from accounting and record keeping, safekeeping of assets and written confirmation of telephone transactions for investments and wire transfers.

The external auditors will annually review the investments and general activities associated with the investment program. This review will provide internal control by assuring compliance with the Investment Policy and District policies and procedures.

Performance Standards

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

The District's investment strategy is passive. The performance of the District's investment portfolio will be evaluated and compared to an appropriate benchmark in order to assess the success of the investment portfolio relative to the District's Safety, Liquidity, and Return on Investments' objectives.



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Investment Reporting

In accordance with California Government Code §53646, the CFO/Treasurer will prepare a quarterly Investment Report and render the report to the Board of Directors no later than 30 days after the close of each calendar quarter.

The report shall provide the type of investment, issuers, the date of maturity, par values and market values of each investment, transactions occurring during the reporting period, and identification of funds managed by third party managers. The report will also include 1) certification that all investment transactions have been made in compliance with the District's Investment Policy, and 2) a statement that the District has the ability to meet all of its expenditure requirements during the next six months.

Policy Adoption

Adoption. This policy shall be reviewed annually with the Board of Directors and adopted by Board Resolution.

Amendments. Any changes to the policy, or persons charged with maintaining internal controls over investments, must be approved by the Board.

Glossary of Terms

(Note: All words of a technical nature should be included. Following is an example of common treasury terminology.)

Agencies: Federal agency securities and/or Government-sponsored enterprises.

Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Broker: A broker brings buyers and sellers together for a commission.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CDs are typically negotiable.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.



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Comprehensive Annual Financial Report (CAFR): The official annual report of the (East Valley Water District). It includes five combined statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP). It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

Coupon: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Delivery versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Derivatives: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities, or commodities).

Discount: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Diversification: A Dividing investment funds among a variety of securities offering independent returns.

Duration: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals (e.g., S & L's, small business firms, students, farmers, farm cooperatives, and exporters).



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Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per entity.

Federal Funds Rate: The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Home Loan Banks (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions, and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

Federal National Mortgage Association (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation’s purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA’s securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks, and about 5,700 commercial banks that are members of the system.

Government National Mortgage Association (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FHA mortgages. The term “pass-throughs” is often used to describe Ginnie Maes.

Liquidity: A liquidity asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

Local Government Investment Pool (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.



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

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

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

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Offer: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

Prudent Person Rule: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state-the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

Qualified Public Depositories: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.



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Repurchase Agreement (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.

Reverse Repurchase Agreement (Reverse REPO): A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

Safekeeping: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

Secondary Market: A market made for the purchase and sale of outstanding issues following the initial distribution.

Securities & Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Sec Rule 15(C)3-1: See Uniform Net Capital Rule.

Structured Notes: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

Treasury Bonds: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

Treasury Notes: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio.



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Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

Yield: The rate of annual income return on an investment, expressed as a percentage. (a) Income Yield is obtained by dividing the current dollar income by the current market price for the security. (b) Net Yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.