

WEST ORANGE COUNTY WATER BOARD

2026 INVESTMENT POLICY STATEMENT

1.0 POLICY

This Statement of Investment Policy (“Policy”) provides the structure for the prudent investment of funds for the West Orange County Water Board (“WOCWB”) to meet its short- and long-term cash flow needs. In accordance with California Government Code Section 53646, the Treasurer’s Office (“Treasurer”) will annually render to WOCWB’s Board of Directors (“Board”) a Policy to be approved annually by the Board. Definitions attached to this policy are herein incorporated by this reference.

The Policy is based upon the WOCWB Joint Powers of Authority Agreement dated October 1967 (as amended), prudent money management principles, and State of California laws affecting the investment of funds. The primary goal is to invest funds in a manner that will provide the maximum security of principal invested, provide sufficient liquidity to meet cash flow needs, and achieve a reasonable rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

2.0 SCOPE

This Policy governs the investment of all funds and investment activities under the direct control of WOCWB unless specifically exempted.

3.0 OBJECTIVE

Investments are made under the terms of conditions of California Government Code Section 53600. The primary investment objectives, presented in their absolute order of priority, are:

3.1. SAFETY

Safety of principal is the foremost investment objective. Investments of WOCWB shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The Treasurer shall seek to preserve principal and minimize capital losses by mitigating credit risk and market risk.

3.2. LIQUIDITY

Liquidity is essential to the safety of principal. The investment portfolio shall remain sufficient liquidity to meet all daily operating requirements based on reasonably anticipated cash flow needs. The investment portfolio shall be structured such that securities mature as much as possible in conjunction with major cash flows to minimize the need to sell securities prior to their maturity. Since all possible cash demands cannot be anticipated, the portfolio will maintain monies to be used for operations over next 6 months in funds with daily liquidity, such as the Local Agency Investment Fund (“LAIF”) or the California Asset Management Program (“CAMP”), which is a permitted investment for all local agencies under California Government Code Section 53601(p).

3.3. YIELD/RETURN

Yield refers to the objective of attaining a market rate of return commensurate with the risk profile and cash flow characteristics of the portfolio throughout budgetary and economic cycles. WOCWB funds entrusted to the Treasurer will be primarily a passively managed portfolio with core investments limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. The portfolio will provide a rate of return based on the market rates of investments, at the time of purchase.

4.0 DELEGATION OF AUTHORITY

The authority to invest WOCWB funds rests with its Board of Directors. Pursuant to Section 4.9 of the Joint Powers Agreement and the California Government Code Section 53607, the Board delegates investment authority for WOCWB's funds to the Treasurer for one year and that delegation must be renewed annually. Adoption of this Policy constitutes delegation of investment authority to the Treasurer for the following year unless revoked in writing. Daily responsibility for investment of City funds resides with the Treasurer, and the Treasurer may appoint deputies to assist in carrying out this delegated authority in their absence pursuant to California Government Code Section 41006. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials pursuant to California Government Code Section 53607.

5.0 PRUDENCE

Investments shall be made in adherence to the "prudent investor" standard as stated in California Government Code Section 53600.3. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of WOCWB 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 WOCWB. Within the limitation of this Section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.

The Treasurer and authorized designees, as investment officers acting in accordance with written procedures and the 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 to the Board in a timely fashion and appropriate actions are taken to mitigate adverse developments. All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

All investments purchased shall have daily liquidity or a final stated maturity date, upon which the full principal value of the security will be received. Although the investment will mature at full principal value, it is recognized that the market values of certain securities may vary from time to time.

6.0 ETHICS AND CONFLICTS OF INTEREST

In addition to state and local statutes relating to conflicts of interest, the Treasurer and all persons involved in the investment process shall refrain from personal business activity that could create a conflict with proper execution of the investment program or could impair their ability to execute impartial investment decisions. The Treasurer and his/her designees 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. The Treasurer and all persons involved in the investment process shall disclose by April 1st of each calendar year to the applicable oversight body any material financial interests or investment positions in financial institutions, broker dealers, and vendors that conduct business with WOCWB or any large personal financial/investment positions that could be related to WOCWB performance (Statement of Economic Interests from the California Fair Political Practices Commission). If there is an event during the year subject to disclosure that could impair the ability of the Treasurer or his/her designees to make impartial decisions, the Treasurer shall notify the General Manager and Board within 15 days of the event.

7.0 AUTHORIZED FINANCIAL INSTITUTIONS

The Treasurer will maintain a list of the financial institutions authorized to provide investment and/or depository services and products. The Treasurer will perform an annual review of the financial condition of these financial institutions and require annual audited financial statements to be on file for each company. All banking institutions must have a rating of at least “A-1” from S&P or Moody’s or an equivalent rating from another generally recognized authority on ratings. Negotiable instruments requiring 3rd party safekeeping are not cost effective for WOCWB, so WOCWB does not require broker/dealers. Money market mutual fund accounts are restricted to funds that are rated “AAA” by at least two nationally recognized statistical-rating agencies (“NRSRO”).

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

Section 3.0 of the Joint Powers of Authority Agreement states that the Treasurer shall keep all revenues of WOCWB in an interest-bearing account and otherwise perform the duties and responsibilities of that office as specified in Section 6505.5(A)(d) of the Government Code. All investments under this Investment Policy shall be made in accordance with the Joint Powers of Authority Agreement and provision of Article I (commencing with Section 6500), Chapter 5, Division 7, Title I and Sections 16429.1, 53601, and 53635 of the Government Code. Authorized investment instruments include:

- Passbook or checking account deposits at an authorized financial institution (insured or collateralized). There is no limitation on the amount of funds that can be invested.
- Certificates of Deposit (insured or collateralized), limited to 30% of the portfolio’s book value.
- LAIF and CAMP, with no limitation on the amount of funds that can be invested outside of California General Code restrictions outlined in the Investment Pools section.
- “AAA” rated Money Market Mutual Funds, limited to 20% of the portfolio’s book value with no more than 10% invested in any one mutual fund.

All Money Market Mutual Funds must be AAA rated by two NRSROs, invest only in direct obligations in US Treasury bills, notes, bonds, agencies and repurchase agreements with a weighted average of 60 days or less, and have a minimum of \$500 million in assets under management.

9.0 INVESTMENT POOLS AND MONEY MARKET FUNDS

The Treasurer shall be required to investigate all local government investment pools and money market mutual funds as authorized by California Government Code 53684 prior to investing and perform quarterly reviews while the funds are invested in the pool. The analysis shall include but is not limited to the following pool characteristics: eligible investment securities, investment policy/objectives, interest calculations/distributions, securities pricing, maximum maturity, REPO collateral/counter-party, securities safeguarding/settlement processes, pool/fund size, deposit/withdrawal limits, program audits, and expense ratios/fee schedules. The Treasurer may invest in LAIF, a special fund established by the State Treasurer under California Government Code Section 16429.1. Due to its pooled nature, LAIF is an allowable investment for local agencies even though some individual investments would not be allowed normally as direct City investments. LAIF has no final stated maturity and will be reported as a one-day maturity. The California Government Code limits deposits to \$75 million per entity. CAMP is authorized as an allowable investment for local agencies under the California Government Code Section 53601(p).

10.0 COLLATERALIZATION

California banks and other depository institutions are required to secure WOCWB's Certificates of Deposit, passbook, and checking account deposits by pledging eligible securities with of a value of 110% of principal and accrued interest under California Government Code Section 53651. Collateral must be held by an independent 3rd party with whom the WOCWB has a current custodial agreement. Clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to the City and retained. No collateral substitutions may be made without prior approval of the Treasurer. To anticipate market changes and provide a level of security, the collateral shall be marked-to-market no less often than daily. The Treasurer may waive the collateral requirement for deposits fully insured by the Federal Deposit Insurance Corporation.

11.0 DIVERSIFICATION

Investment diversification is permitted within WOCWB's portfolio to minimize the risk of loss resulting from assets of a specific maturity, issuer, or class of securities. If authorized by the Board and Treasurer and permitted by California General Code, WOCWB funds may be invested in a single type of Authorized Investment so long as that investment is fully insured as to both principal and interest.

12.0 MAXIMUM MATURITIES

To the extent possible, the Treasurer will attempt to match WOCWB's investments with its anticipated cash flow requirements. Unless matched to a specific WOCWB cash flow need, the

Treasurer will not invest directly in securities maturing more than five years from the date of purchase with the relevant settlement date as the date of purchase for measuring maturity limitations.

13.0 PERFORMANCE STANDARDS

The investment strategy is to manage the portfolio with less risk than a comparable benchmark index while using economies of scale to administer the program at a reasonable cost, in order to obtain a rate of return throughout budgetary and economic cycles commensurate with investment risk constraints and cash flow needs. The investment strategy will be passive and the benchmark for determining market yields will be the 6-month constant maturity Treasury bill, which shall be used solely for comparative purposes and does not constitute a guarantee of actual fund performance or imply that the Treasurer will place additional risk in the portfolio to attain or exceed the benchmark. The Treasurer will make best efforts to observe, review, and react to changing conditions that affect the portfolio.

14.0 INTERNAL CONTROL

The Treasurer shall be responsible for all investment transactions undertaken and shall establish a system of written internal controls designed to prevent loss of public funds due to fraud, employee error, misrepresentation by 3rd parties, unanticipated market changes, or imprudent actions by employees. The Treasurer shall develop and maintain written administrative procedures for the investment program's operations related to safekeeping, repurchase agreements, wire transfer agreements, collateral/depository agreements, banking service contracts, and other investment/banking-related activities consistent with this Policy. Such procedures shall include specific duties of authorized personnel responsible for assisting in executing investment transactions.

The external auditors shall annually review the investments with respect to the investment policy. This review will provide internal control by assuring compliance with policies and procedures for the investments that are selected for testing. To provide further protection of Authority funds, written procedures prohibit the wiring of any funds or providing payments in check form without the authorization of at least two of the five designated officials: Treasurer, Deputy Treasurer, Treasury Manager, CFO, or Assistant CFO.

15.0 REPORTING

The Treasurer shall submit a quarterly report ("Report") within 30 days following the end of the quarter to the Board under the provision of California General Code Sections 53607 and 53646 to provide information on the investment portfolio's performance and include other information outlined in State law as noted below. This Report shall be placed on the Board agenda for public review. This Report shall contain sufficient information to permit an informed outside reader to evaluate the performance of the WOCWB investment program and include:

- a) Type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and monies held.

- b) Description of any of the funds, investments, or programs, that are under the management of contracted parties, including lending programs.
- c) Current market and book value as of the date of the report and source of the valuation with respect to securities held by the local agency other than funds in LAIF, other allowable pooled accounts, bank accounts, or Certificates of Deposit.
- d) Portfolio compliance to the Policy or manner in which the portfolio is not in compliance. Percentage of portfolio represented by each investment type.
- e) Statement denoting WCOWB's ability to meet its pool expenditure requirements for the next 6 months or an explanation why sufficient money shall or may not be available.
- f) Monthly transaction details for any investments.
- g) The most recent statement(s) for all investments exempt from market valuation pursuant to this section of the Policy.

16.0 POLICY REVIEW

This Policy will remain in effect through the year unless amended by the Board. A Policy will be rendered annually, at the beginning of each calendar year, to the Board and shall be adopted by Board resolution. Any California law that further restricts allowable maturities, investment type, percentage allocations, or any other provision of this Policy will, upon effectiveness, be incorporated into this Policy and supersede any and all previous applicable language.

DEFINITIONS

The terms defined in this Appendix shall, for purposes of the West Orange County Water Board Investment Policy, have the meanings specified below:

“Authorized Investments” means those classes of investments, which are authorized pursuant to this Investment Policy in 8.0. Authorized Investments may be more restrictive than those authorized by State Law.

“Book Value” means the value of an Investment, or all Investments, based upon a marked-to-market valuation as of any particular date.

“Certificate of Deposit” means a deposit of funds at a bank for a specified period of time that earns interest at a specified rate as evidenced by a certificate.

“FDIC” means the Federal Deposit Insurance Corporation.

“General Manager” means the General Manager of WOCWB as appointed by the Board.

“Investments” means those investments made with the funds of WOCWB.

“Joint Powers Agreement” means that Joint Powers Agreement under which the WOCWB was organized and operates, pursuant to Government Code Section 6500 et. seq., as amended and supplemented.

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

“Maturity” means date upon which an investment’s principal or stated value becomes due and payable.

“Money Market Mutual Funds” means investment companies that pool money from investors and invest in a variety of short-term money market instruments.

“Nationally Recognized Statistical Rating Organization” means firms that review and assess the creditworthiness for the issuers of debt securities or money market instruments and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB). The primary rating agencies are Standard & Poor’s, Moody’s Investor Services, and Fitch, but any credit rating agency to the Securities and Exchange Commission for registration as a Nationally Recognized Statistical Rating Organization.

“Par Value” means principal that must be paid at maturity, normally quoted in \$1,000 increments per bond.

“Treasurer” means the Treasurer of WOCWB, appointed by the Board pursuant to the Joint Powers Agreement. This includes an officer of a member agency of WOCWB (such as a city treasurer) serving in the capacity of Treasurer of WOCWB.

“WOCWB” means the West Orange County Water Board, a joint powers agency.