

Santa Fe Irrigation District
Investment Policy
January 2023

The Santa Fe Irrigation District (the “District”) provides water and related services to residential and commercial customers in the Rancho Santa Fe, Fairbanks Ranch and Solana Beach areas of San Diego County, California. The District is governed by a five-member board of directors (the “Board”) elected by the District’s water users.

The Board has adopted this Investment Policy (the “Policy”) in order to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the District. All District funds will be invested in accordance with the Policy and with applicable sections of the California Government Code.

This Policy was originally endorsed and adopted by the Board of Directors of the Santa Fe Irrigation District on February 19, 2009. It replaces any previous investment policy or investment procedures of the District.

SCOPE

The provisions of this Policy shall apply to all financial assets of the District.

All cash shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective average balances relative to the total pooled balance in the investment portfolio. Interest earnings shall be distributed to the individual funds on a monthly basis.

OBJECTIVES

The principal investment objectives of the District are:

1. Preservation of capital and protection of investment principal.
2. Maintenance of sufficient liquidity to meet anticipated cash flows.
3. Attainment of a market value rate of return.
4. Diversification to avoid incurring unreasonable market risks.
5. Conformance with all applicable California statutes and Federal regulations.

DELEGATION OF AUTHORITY

The management responsibility for the District’s investment program is delegated for a one-year period by the Board to the Treasurer who shall assume full responsibility until the delegation of authority is revoked or expired pursuant to California Government Code Section 53607. Oversight is provided by the Santa Fe Irrigation District Finance Committee. The District’s General Manager serves as the Treasurer. The Treasurer may delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized staff members. Authority may be delegated to other staff members provided the Treasurer exercises prudence in a selection of these staff members and imposes suitable safeguards to prevent abuse in the exercise of discretion. The Treasurer shall remain responsible for any investment decisions made

by these staff members. The Treasurer shall maintain a list of every staff member who was delegated such authority, and his or her responsibilities with respect to investment decisions.

The Treasurer shall develop written administrative procedures and internal controls, consistent with this Policy, for the operation of the District's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the District.

The District may engage the support services of outside investment advisors in regard to its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the District's financial resources.

PRUDENCE

The standard of prudence to be used for managing the District's investments shall be California Government Code Section 53600.3, the prudent investor standard which states, "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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired by law."

The District's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The District recognizes that no investment is totally without risk and that the investment activities of the District are a matter of public record. Accordingly, the District recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the District.

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

ETHICS AND CONFLICTS OF INTEREST

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Treasurer any financial interests they have in financial institutions that conduct business with the District and they shall subordinate their personal investment transactions to those of the District. The Treasurer shall file a Statement of Economic Interests each year pursuant to California Government Code Section 87203. Other designated employees and consultants shall file a Statement of Economic Interests each year pursuant to the District's Conflict of Interest Code.

AUTHORIZED SECURITIES AND TRANSACTIONS

All investments and deposits of the District shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686. However, pursuant to California Government Code Section 5903(e), if prior to issuing any bonds, the legislative body determines that the interest payable on the bonds to be issued by the state or local government will be subject to federal income taxation under the law, proceeds of bonds and any moneys set aside or pledged to secure payment of the bonds may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of the bonds.

Any revisions or extensions of these code sections will be assumed to be part of this Policy immediately upon being enacted.

The District has further restricted the eligible types of securities and transactions as follows:

1. United States Treasury bills, notes, bonds, or certificates of indebtedness with a final maturity not exceeding five years from the date of purchase.
2. Federal Agency debentures and mortgage-backed securities with a final maturity not exceeding five years from the date of purchase issued by the Government National Mortgage Association (GNMA).
3. Federal Instrumentality (government sponsored enterprise) debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of purchase, issued by the following only: Federal Home Loan Banks (FHLB), Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB) and Federal Home Loan Mortgage Corporation (FHLMC).
4. Obligations of the State of California and any local agency within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or local agency, or by a department, board, agency, or authority of the state or local agency, rated at least AA or A-1+ by Standard & Poor's, Aa2 or P-1 by Moody's or AA or F-1+ by Fitch, with a final maturity not exceeding five years from the date of purchase. On the date of purchase, no more than 20% of the District's portfolio may be invested in such obligations.
5. Other States' Registered treasury notes or bonds, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by a state or by a department, board, agency, or authority of the state, rated at least AA or A-1+ by Standard & Poor's, Aa2 or P-1 by Moody's or AA or F-1+ by Fitch, with a final maturity not exceeding five years from the date of purchase. On the date of purchase, no more than 20% of the District's portfolio may be invested in such obligations.
6. Repurchase Agreements with a final termination date not exceeding one year collateralized by U.S. Treasury obligations, Federal Agency securities, or Federal Instrumentality securities listed in items 1, 2 and 3 above with the maturity of the collateral not exceeding ten years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the District's approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the transaction and shall be adjusted no less than quarterly. Collateral shall be held in the District's custodian bank, as safekeeping agent, the investments and repurchase agreements

shall be in compliance if the value of the underlying securities is brought up to 102% no later than the next business day.

Repurchase Agreements shall be entered into only with dealers who have executed a District approved Master Repurchase Agreement with the District and who are recognized as Primary Dealers with the Federal Reserve Bank of New York. Primary Dealers approved as Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent. The Treasurer shall maintain a copy of the District's approved Master Repurchase Agreement along with a list of the broker/dealers who have executed a Master Repurchase Agreement with the District.

7. Prime Commercial Paper with a maturity not exceeding 270 days. Maximum portfolio exposure is limited to 25% in the aggregate and 10% of the outstanding paper and medium-term notes of a single issuer. Investment is limited to commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall either be organized and operating in the United States as a general corporation with total assets in excess of five hundred million dollars (\$ 500,000,000), a debt other than commercial paper, if any, that is rated in a rating category of "A" or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO) OR the entity shall be organized within the United States as a special purpose corporation, trust, or limited liability company, with program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond and commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.
8. Eligible Bankers Acceptances with a maturity not exceeding 180 days from the date of purchase, issued by a FDIC insured state or national bank with combined capital and surplus of at least \$250 million, and whose senior long-term debt is rated at least A by Standard and Poor's, A2 by Moody's or A by Fitch at the time of purchase. No more than 10% of the District's total portfolio may be invested in banker's acceptances of any one issuer, and the aggregate investment in banker's acceptances shall not exceed 15% of the District's total portfolio.
9. Medium-Term Notes 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, with a final maturity not exceeding five years from the date of purchase and rated in a rating category of "A" or its equivalent or better by Standard & Poor's, Moody's or Fitch. The aggregate investment in medium-term notes shall not exceed 20% of the District's total portfolio, and no more than 10% in the outstanding paper and medium-term notes of a single issuer.
10. State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1. The aggregate investment in LAIF shall not exceed \$65,000,000.
11. San Diego County Treasurer's Pooled Money Fund, pursuant to California Government Code Section 53684. The aggregate investment in this pool shall not exceed 20% of the total portfolio or \$5 million, whichever is greater.
12. California Asset Management Program (CAMP), pursuant to California Government Code Section 53601(p). The aggregate investment in this pool shall not exceed 20% of the total portfolio or \$5 million, whichever is greater.

13. Money Market Funds registered under the Investment Company Act of 1940 that (1) are “no-load” (meaning no commission or fee shall be charged on purchases or sales of shares); (2) strive to maintain a net asset value per share of \$1.00; (3) invest only in the securities and obligations authorized in the applicable California statutes; (4) have a rating of at least two of the following: AAAM by Standard and Poor’s, Aaa by Moody’s or AAA/V1+ by Fitch; and (5) retain an investment advisor registered or exempt from registration with the SEC with no less than five years’ experience managing money market funds with assets under management in excess of \$500,000,000. No more than 10% of the District’s total portfolio may be invested in money market funds of any one issuer, and the aggregate investment in money market funds shall not exceed 20% of the total portfolio.

14. Unauthorized investments are defined in Section 53601.6 of the California Government Code, which disallows the following investments: inverse floaters, range notes, or mortgage derived interest-only strips. In addition, and more generally, investments are further restricted as follows:

No investment will be made that has either (1) an embedded option or characteristic which could result in a loss of principal if the investment is held to maturity, or (2) an embedded option or characteristic which could seriously limit accrual rates or which could result in zero accrual periods.

No investment will be made that could cause the portfolio to be leveraged.

It is the intent of the District that the foregoing list of authorized securities is strictly interpreted. Any deviation from this list must be preapproved by the Treasurer in writing.

PORTFOLIO MATURITIES AND LIQUIDITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The District will not invest in securities maturing more than five years from the date of purchase, unless the Board has granted authority to make such an investment at least three months prior to the date of investment. The weighted average final maturity of the District’s portfolio shall at no time exceed three years.

SELECTION OF BROKER/DEALERS

The Treasurer shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the District to purchase securities only from those brokers and the firms they represent. Each approved broker/dealer must possess an authorizing certificate from the California Commissioner of Corporations as required by Section 25210 of the California Corporations Code. The firms they represent must:

1. be recognized as a Primary Dealer by the Federal Reserve Bank of New York, or
2. be a State member of a national or state chartered bank, or
3. be a primary or regional dealer qualified under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

Broker/dealers will be selected by the Treasurer on the basis of their expertise in public cash management and their ability to provide services for the District’s account.

Each authorized broker/dealer shall be required to submit and annually update a District approved Broker/Dealer Information Request form that includes the firm's most recent financial statements. The Treasurer shall maintain a list of the broker/dealers that have been approved by the District, along with each firm's most recent broker/dealer Information Request form. Broker/Dealers shall attest in writing that they have received and reviewed a copy of this Policy.

The District may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item 6 of the Authorized Securities and Transactions section of this Policy.

COMPETITIVE TRANSACTIONS

Where applicable, each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the District is offered a security for which there is no other readily available competitive offering, then the Treasurer will document quotations for comparable or alternative securities.

SELECTION OF BANKS

The Treasurer shall maintain a list of FDIC insured banks approved to provide depository and other banking services for the District. To be eligible, a bank shall qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5 and shall secure deposits in excess of FDIC coverage in accordance with California Government Code Section 53652.

The Treasurer shall utilize Standard and Poor Global Ratings to perform credit analyses on banks seeking authorization. The analysis shall include a composite rating, and individual ratings of liquidity, asset quality, profitability and capital adequacy. Semi-annually, the Treasurer shall review the most recent credit rating analysis reports performed for each approved bank. Banks, that in the judgment of the Treasurer no longer offer adequate safety to the District, shall be removed from the District's list of authorized banks.

SAFEKEEPING AND CUSTODY

The Treasurer shall select one or more banks to provide safekeeping and custodial services for the District, in accordance with the provisions of Section 53608 of the California Government Code. A Safekeeping Agreement approved by the District shall be executed with each custodian bank prior to utilizing that bank's safekeeping services. To be eligible, a bank shall have an average Highline Banking Data Services Rating of 20 or better on a scale of zero to 99 with 99 being the highest quality for the four most recent reporting quarters before the time of selection.

Custodian banks will be selected on the basis of their ability to provide services for the District's account and the competitive pricing of their safekeeping related services.

The Treasurer shall maintain a file of the credit rating analysis reports performed for each approved bank. Credit analysis shall be performed on a semi-annual basis.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. It is the intent of the District that all securities be perfected in the

name of the District. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except negotiable Certificates of Deposit, Money Market Funds and Local Government Investment Pools, purchased by the District will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by a District approved custodian bank, its correspondent bank or its Depository Trust Company (DTC) participant account.

All Fedwire-able book entry securities owned by the District shall be evidenced by a safekeeping receipt or a customer confirmation issued to the District by the custodian bank stating that the securities are held in the Federal Reserve system in a customer account for the custodian bank which will name the District as "customer."

All DTC eligible securities shall be held in the custodian bank's Depository Trust Company (DTC) participant account and the custodian bank shall issue a safekeeping receipt evidencing that the securities are held for the District as "customer."

All non-book entry (physical delivery) securities shall be held by the custodian bank's correspondent bank and the custodian bank shall issue a safekeeping receipt to the District evidencing that the securities are held by the correspondent bank for the District as "customer."

PORTFOLIO PERFORMANCE

The investment and cash management portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the District's investments shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's actual weighted average effective maturity. When comparing the performance of the District's portfolio, its rate of return will be computed net of all fees and expenses.

REPORTING

On a quarterly basis, the Treasurer shall submit to the Board a report of the investment earnings and performance results of the District's investment portfolio. The report shall include the following information:

1. Investment type, issuer, date of maturity, par value and dollar amount invested in all securities, and investments and monies held by the District;
2. A description of the funds, investments and programs (including lending programs) managed by contracted parties;
3. A market value as of the date of the report and the source of the valuation;
4. A statement of compliance with the investment policy or an explanation for non-compliance; and
5. A statement of the ability or inability to meet expenditure requirements for six months, as well as an explanation of why money is or will not be available as provided for in the statutory law governing the reporting requirements.

At least annually, the Treasurer shall present to the Board a review of the investment portfolio's adherence to appropriate risk levels and a comparison between the total portfolio return and the established investment goals, objectives and benchmarks.

POLICY REVISIONS

This Investment Policy shall be presented annually by the Treasurer to the Board for review pursuant to Section 53646(a)(2) of the California Government Code. This Policy may be amended by the Board as conditions warrant.

Santa Fe Irrigation District
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Addendum I
Updated January 2022

California Government Code Section 53601 limits all investment maturities to five years from date of purchase, unless the Board, at least three months prior to the investment, has granted authority to exceed the five-year limit, either specifically or as part of an investment program. Instances where the law further limits investments, either by type or length of time, have been noted accordingly.

Investment Type	Code	Limitations in Addition to 5-year Maximum	District Policy
US Treasuries	53601(b)		5-year maximum
Federal Agencies	53601(b)		5-yr max, GNMA only
Federal Instrumentalities	53601(b)		5-yr max; FHLB, FNMA, FFCB & FHLMC only
State & Local Agencies:			
District's own bonds	53601(a)		20% of portfolio, 5-yr max, AA rate
California Instruments	53601(c)	Warrants, notes & bonds	20% of portfolio, 5-yr max, AA or A-1+ rate
Other States' Instruments	53601(d)		20% of portfolio, 5-yr max, AA or P-1 rate
Other Local Agencies	53601(e)	Within CA only	20% of portfolio, 5-yr max, AA or F-1+ rate
Repurchase Agreements	53601(j)	One year or less in any security allowed for purchase for one year or less; for reverse repurchase agreements, only up to 20% of portfolio may be invested	Market value 102% of transaction, 1-yr max to termination, collateralized by Federal securities
Prime Commercial Paper	53601(h)	25% of portfolio, 10% per issuer (incl medium-term notes); 270-day term	25% of portfolio, 10% per issuer (incl medium-term notes); 270-day max; A or A-1 rate; US only
Bankers' Acceptances	53601(g)	40% of portfolio; 180 days maximum; no more than 30% in any one bank	15% of portfolio; 180-day max; A or A2 rate
Certificate of Deposits (CDs):			
Negotiable	53601(i)	30% of portfolio	Not allowed
Medium-Term Notes	53601(k)	30% of portfolio; 10% per issuer (incl medium-term notes); 5-yr max; A rate	20% of portfolio; 10% per issuer (incl medium-term notes); 5-yr max; AA- or Aa3 rate
Designated Mutual Funds	53601(l)	20% of portfolio; 10% in any one mutual fund	Not allowed
Secured Notes, etc	53601(m)	Depends on security	Not allowed
Mortgage-Backed Securities/Collateralized Mtg Obligations	53601(o)	20% of funds; 5-yr max; AA rate	Not allowed
Futures	53601.1		Not allowed
LAIF	16429.1	Currently \$65,000,000 maximum	\$65,000,000
California Asset Management Program	53601(p)		20% of portfolio or \$5 million, whichever is greater
SD County Treasurer's Pooled Money Fund	53684		20% of portfolio or \$5 million, whichever is greater
Money Market Funds	53601(l)	20% of portfolio	20% of portfolio, 10% any one issuer; no-load; AAAm, Aaa or AAA/V1+ rate