

# 20 | INVESTMENT 23 | POLICY

Adopted December 15, 2022



**ORANGE COUNTY SANITATION DISTRICT  
INVESTMENT POLICY STATEMENT  
CALENDAR YEAR 2023**

**Proposed for Review and Approval By  
Administration Committee On  
December 14, 2022**

**And for Adoption By  
Board of Directors On  
December 15, 2022**





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# ORANGE COUNTY SANITATION DISTRICT

## INVESTMENT POLICY STATEMENT

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### 1.0 **Policy:**

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

1.1. This Investment Policy is set forth by OC San for the following purposes:

1.1.1. To establish a clear understanding for the Board of Directors, OC San management, responsible employees and third parties of the objectives, policies and guidelines for the investment of OC San's idle and surplus funds.

1.1.2. To offer guidance to investment staff and any external investment advisors on the investment of OC San funds.

1.1.3. To establish a basis for evaluating investment results.

1.2. OC San establishes investment policies which meet its current investment goals. OC San shall review this policy annually and may change its policies as its investment objectives change.

### 2.0 **Scope:**

This Investment Policy applies to all financial assets of OC San; except for the proceeds of OC San's capital projects financing program, which are invested in accordance with provisions of their specific bond indentures; and such other funds excluded by law or other Board-approved covenant or agreement.

These funds are accounted for by OC San as Enterprise Funds as represented in OC San's Annual Comprehensive Financial Report.

### 3.0 **Standard of Prudence:**

The standard of prudence to be used by OC San internal staff, and any authorized investment advisor(s), shall be as described in Section 53600.3 of the California Government Code as follows: Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the **prudent investor** standard. 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 as authorized by law.

#### 4.0 **Investment Objectives:**

The primary objectives of OC San's investment activities, in priority order, and as described in Section 53600.5 of the California Government Code, shall be:

- 4.1 **Safety:** The safety and preservation of principal is the foremost objective of the investment program of OC San. Investments shall be selected in a manner that seeks to ensure the preservation of capital in OC San's overall portfolio. This will be accomplished through a program of diversification, more fully described in Section 13.0, and maturity limitations, more fully described in Section 14.0, in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- 4.2 **Liquidity:** The investment program will be administered in a manner that will ensure that sufficient funds are available for OC San to meet its reasonably anticipated operating expenditure needs.
- 4.3 **Return on Investments:** The OC San investment portfolio will be structured and managed with the objective of achieving a market rate of return throughout budgetary and economic cycles, commensurate with legal, safety and liquidity considerations.

#### 5.0 **Delegation of Authority:**

- 5.1 Authority to manage OC San's investment program is derived from the California Government Code Sections 53600 *et seq.* and Sections 53635 *et seq.* The Board of Directors hereby delegates management responsibility for OC San's investment program to its Assistant General Manager & Director of Finance and Administrative Services/Treasurer, who shall establish written procedures for the operation of the investment program, consistent with this policy. The Controller/Assistant Treasurer shall be responsible for day-to-day administration, monitoring and the development of written administrative procedures for the operation of the investment program, consistent with this policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken by OC San internal staff and shall establish a system of controls to regulate the activities of internal staff and external investment advisors engaged in accordance with Section 5.3.
- 5.2 The administrative procedures for the operation of OC San's investment program will provide for, but not be limited to, the following:

- 5.2.1 Formats for monthly and quarterly reports to the Administration Committee and the Board of Directors.
  - 5.2.2 Compliance with generally accepted accounting principles of the Government Accounting Standards Board.
  - 5.2.3 Establishment of benchmarks for performance measurement.
  - 5.2.4 Establishment of a system of written internal controls.
  - 5.2.5 Establishment of written procedures for competitive bids and offerings of securities that may be purchased or sold by internal OC San staff.
  - 5.2.6 Establishment of a Desk Procedures Manual for treasury operations and management.
- 5.3 The Board of Directors may, in its discretion, engage the services of one or more registered investment advisors to assist in the management of OC San's investment portfolio in a manner consistent with OC San's objectives. Such external investment advisors, which shall be selected through a competitive process, shall be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such advisors must be registered under the Investment Advisers Act of 1940 or be exempt from such registration.

#### 6.0 **Ethics and Conflicts of Interest:**

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

#### 7.0 **Authorized Financial Dealers and Institutions:**

- 7.1 For investment transactions conducted by OC San internal staff, the Treasurer will maintain a list of financial institutions authorized to provide investment services to OC San, including "primary" or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital rule) and Federal or State of California chartered banks. No public deposit shall be made except in a qualified public depository as established by State law.



All financial institutions which desire to become qualified bidders for investment transactions with OC San must supply the following for evaluation by the Treasurer:

7.1.1. Audited financial statements for the institution's three most recent fiscal years.

7.1.2. A statement, in the format prescribed by the Government Finance Officers Association (GFOA), certifying that the institution has reviewed OC San's Investment Policy and that all securities offered to OC San shall comply fully and in every instance with all provisions of the California Government Code and with this Investment Policy. The current statement is presented in Appendix "A."

7.1.3. A statement describing the regulatory status of the dealer and the background and expertise of the dealer's representatives.

Selection of financial institutions, broker/dealers and banks authorized to engage in transactions with OC San shall be made through a competitive process. An annual review of the financial condition of qualified institutions will be conducted by the Treasurer.

7.2 Selection of broker/dealers used by external investment advisors retained by OC San, shall be in compliance with contract provisions between OC San and any external investment advisors and shall be in substantially the following form:

Use of Securities Brokers: Neither the Investment Advisor nor any parent, subsidiary or related firm shall act as a securities broker with respect to any purchases or sales of securities which may be made on behalf of OC San, provided that this limitation shall not prevent the Investment Advisor from utilizing the services of a securities broker which is a parent, subsidiary or related firm, provided such broker effects transactions on a "cost only" or "nonprofit" basis to itself and provides competitive execution. The Investment Advisor shall provide OC San with a list of suitable independent brokerage firms (including names and addresses) meeting the requirements of Government Code Section 53601.5, and, unless otherwise directed by OC San, the Investment Advisor may utilize the service of any of such independent securities brokerage firms it deems appropriate to the extent that such firms are competitive with respect to price of services and execution.

## 8.0 **Authorized and Suitable Investments:**

All investments shall be made in accordance with the California Government Code including Sections 16429.1 *et seq.*, 53600 *et seq.* and 53684, and as described within this Investment Policy. Permitted investments under this policy shall include:

- 8.1 **Securities, obligations, participations, or other instruments of, or issued by, or fully guaranteed as to principal and interest by the US Government**, a federal agency, or a US Government-sponsored enterprise pursuant to Section 53601 (f) of the California Government Code. US Treasury securities must make up at least 10% of the portfolio.
- 8.2 **Supranational Obligations** issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. Securities must be eligible for purchase in the United States and be U.S. dollar denominated senior unsecured unsubordinated obligations, with a maximum maturity of five years. Securities eligible for purchase under this section must be rated "AA" or better by a Nationally Recognized Statistical Rating Organization (NRSRO) and shall not exceed 30% of the total portfolio.
- 8.3 **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.** Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision may not exceed 20% of the agency's surplus moneys that may be invested pursuant to this section. Purchase of mortgage derivatives, which include interest-only payments (IOs) and principal-only payments (POs); inverse floaters, and RE-REMICs (Real Estate Mortgage Investment Conduits), is hereby prohibited.
- 8.4 **Commercial paper** of "prime" quality of the highest ranking or of the highest letter and number rating as provided by an NRSRO and issued by a domestic corporation organized and operating in the United States with assets in excess of \$500 million and having a rating of "A" or better on its long-term debt as provided by an NRSRO. Purchases of eligible commercial paper may not exceed 270 days to maturity from the date of purchase. Purchases of commercial paper shall not exceed 40% of the market value of the portfolio. No more than 5% of the market value of the portfolio, or 10% of the issuer's outstanding paper, may be invested in commercial paper issued by any one eligible corporation.
- 8.5 **Banker's acceptances** issued by institutions, the short-term obligations of which are rated of the highest ranking or the highest letter and number rating as provided by an NRSRO provided that: (a) the acceptance is eligible for purchase by the Federal Reserve System; (b) the maturity does not exceed 180 days; (c) no more than 40% of the total portfolio may be invested in banker's acceptances; and (d) no more than 5% of the total portfolio may be invested in the banker's acceptances of any one commercial bank.

- 8.6 **Medium term (or corporate) notes** of a maximum of five years maturity issued by corporations organized and operating within the United States, or issued by depository institutions licensed by the United States, or any state, and operating within the United States with assets in excess of \$500 million, and which is rated in a rating category of “A” or better on its long-term debt as provided by an NRSRO. If, after purchase, the rating of an eligible note falls below the minimum rating category stipulated above, the external investment advisor shall notify OC San of the downgrade and shall present an analysis and recommendations as to the disposition of the note consistent with the investment objectives of this Investment Policy. No more than 30% of the portfolio may be invested in medium term notes.
- 8.7 **Notes, bonds, or other obligations** that are at all times secured by a valid first priority security interest in securities of the types listed by California Government Code Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by California Government Code Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.
- 8.8 **Shares of mutual funds** investing in securities permitted under this policy and under Section 53601 (l) of the California Government Code. Such funds must either: (1) attain the highest ranking, or the highest letter and numerical rating, provided by not less than two of the three largest nationally recognized rating services; or (2) have an Investment Advisor registered with the Securities and Exchange Commission with not less than five years of experience investing in the securities and obligations authorized under this policy and under California Government Code Section 53601 and with assets under management in excess of \$500 million. The purchase price of shares of beneficial interest purchased pursuant to this policy and the California Government Code may not include any commission that the companies may charge and shall not exceed 20% of OC San’s surplus money that may be invested pursuant to this section. No more than 10% of OC San’s surplus funds may be invested in shares of beneficial interest of any one mutual fund pursuant to this section. Money market mutual funds are limited to 20% per issuer and are not subject to the 10% stipulation.
- 8.9 **Certificates of deposit:**
- 8.9.1 **Secured (collateralized) time deposits** issued by a nationally or state-chartered bank or state or federal savings and loan association, as defined by Section 5102 of the California Financial Code, and having a net operating profit in the two most recently completed fiscal years. Collateral must comply with Chapter 4, Bank Deposit Law, Section 16500 *et seq.*, and

Chapter 4.5, Savings and Loan Association and Credit Union Deposit Law, Section 16600 *et seq.*, of the California Government Code.

8.9.2 **Negotiable certificates of deposit (NCDs)** issued by a nationally or state-chartered bank or state of federal savings and loan association, as defined by Section 5102 of the California Financial Code; *and* which shall have a rating of "A" or better on its long-term debt as provided by a NRSRO; or which shall have the highest letter and number rating for deposits as provided by a NRSRO; or as otherwise approved by the Board of Directors. No more than 30% of the portfolio may be invested in securities pursuant to this section.

8.9.3 To be eligible to receive local agency money, a bank, savings association, federal association, or federally insured individual loan company shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low and moderate income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code.

8.10 **Taxable or tax-exempt municipal bonds** issued by any of the 50 United States. Such securities must be rated "A" or higher by a NRSRO; or as otherwise approved by the Board of Directors.

8.11 **The State of California Local Agency Investment Fund (LAIF)**. LAIF is an investment alternative for California's local governments and special districts managed by the State Treasurer's Office. LAIF is more fully described in the Glossary (See Appendix "C"). OC San shall use LAIF as a short-term cash management facility. Investment of OC San funds in LAIF shall be subject to investigation and due diligence prior to investing, and on a continual basis to a level of review pursuant to Section 3.0, Standard of Prudence, of this policy.

8.12 **The Orange County Treasurer's Money Market Commingled Investment Pool (OCCIP)**. The OCCIP is a money market investment pool managed by the Orange County Treasurer's Office. OCCIP is more fully described in the Glossary (See Appendix "C"). OC San has no funds invested in OCCIP at this time. Investment of OC San funds in OCCIP would be subject to investigation and due diligence prior to investing, and on a continual basis to a level of review pursuant to Section 3.0, Standard of Prudence, of this policy.

8.13 **Repurchase agreements** provided that:

8.13.1 All repurchase agreements shall be collateralized with securities eligible for purchase under this policy. In order to anticipate market changes and to provide a level of security for all repurchase agreement transactions, collateralization shall be maintained at a level of at least 102% of the market

value of the repurchase agreements and shall be adjusted no less than weekly.

8.13.2 All repurchase agreements must be the subject of a Master Repurchase Agreement between OC San and the provider of the repurchase agreement. The Master Repurchase Agreement shall be substantially in the form developed by the Securities Industry and Financial Markets Association.

8.14 **Reverse repurchase agreements** provided that:

8.14.1 No more than 5% of OC San's portfolio shall be invested in reverse repurchase agreements, and there shall be no long-term reverse repurchase agreements unless otherwise authorized by the Board of Directors.

8.14.2 The maximum maturity of reverse repurchase agreements shall be 90 days.

8.14.3 Reverse repurchase agreements shall mature on the exact date of a known cash flow which will be unconditionally available to repay the maturing reverse repurchase agreement.

8.14.4 Proceeds of reverse repurchase agreements shall be used solely to supplement portfolio income or to provide portfolio liquidity and shall not be used to speculate on market movements.

8.14.5 All reverse repurchase agreements must be the subject of a Master Repurchase Agreement between OC San and the provider of the reverse repurchase agreement. The Master Repurchase Agreement shall be substantially in the form developed by the Securities Industry and Financial Markets Association.

8.15 **Public Bank Obligations** of a maximum of five years maturity which includes commercial paper, debt securities, or other obligations of a public bank, a public bank as defined in California Government Code Section 57600-57607.

8.16 Sales of OC San-owned securities in the secondary market may incur losses in order to improve the risk or return characteristics of the portfolio, to prevent anticipated further erosion of principal, or when trading for securities that result in an expected net economic gain to OC San.

8.17 If securities owned by OC San are downgraded below the quality required by this Investment Policy, it shall be OC San's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio. If a decision is made to retain the downgraded securities in the portfolio, their presence in the portfolio will be monitored

and reported quarterly to the OC San General Manager, the Administration Committee and Board of Directors.

- 8.18 OC San is authorized to invest in securities issued by or backed by the United States Government that could result in zero or negative interest accrual if held to maturity.

**9.0 Review of Investment Portfolio:**

The securities held by OC San must be in compliance with Section 8.0 “Authorized and Suitable Investments” at time of purchase. If at a later date, a security is no longer in compliance with Section 8.0, the Treasurer shall report the non-compliant security to the Administration Committee and the Board of Directors and shall include a disclosure in the quarterly Treasurer’s Report if the security is held at the date the report is prepared.

**10.0 Investment Pools/Mutual Funds:**

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. A questionnaire shall be developed that will provide the following information:

- 10.1 A description of eligible investment securities, and a written statement of investment policy and objectives.
- 10.2 A description of interest calculations and how they are distributed, and how gains and losses are treated.
- 10.3 A description of how the securities are safeguarded (including the settlement processes) and how often the securities are priced and the program audited.
- 10.4 A description of who may invest in the program, how often and what size deposits and withdrawals are allowed.
- 10.5 A schedule for receiving statements and portfolio listings.
- 10.6 A description of the utilization and level of reserves, retained earnings or other collateral and how they are used by the fund.
- 10.7 A fee schedule, and when and how is it assessed.
- 10.8 Whether the pool/fund is eligible for bond proceeds and/or whether it will accept such proceeds.

**11.0 Collateralization:**

Generally, the value to secure deposits under this policy shall comply with Section 53652 of the California Government Code. Collateralization will be required for secured time deposits, as more fully described in Section 8.9.1; and repurchase agreements, as more fully described in Section 8.13.1. Collateral will always be held by an independent third-

party, as more fully described in Section 12.0. The right of collateral substitution is granted. Under provisions of the California Government Code, California banks and savings and loans associations are required to secure OC San's deposits by pledging government securities with a value of 110% of principal and accrued interest. State law also allows financial institutions to secure OC San's deposits by pledging first trust deed mortgage notes having a value of 150% of OC San's total deposits.

#### 12.0 **Safekeeping and Custody:**

All securities transactions, including collateral for repurchase agreements, entered into by, or on behalf of OC San, shall be conducted on a **delivery-versus-payment (DVP)** basis. Securities will be held by OC San's third-party custodian bank, which shall be selected through a competitive process, or that agent's representative, or in the agent's account at the Federal Reserve Bank, **or within clearing corporations in the U.S.** and evidenced by book entry statements. Third-party safekeeping arrangements will be approved by the Treasurer and will be corroborated by a written custodial agreement.

#### 13.0 **Diversification:**

OC San will diversify its investments by security type, issuer and financial institution in accordance with the following:

- 13.1 There is no limit on investment in securities issued by or guaranteed by the full faith and credit of the U.S. government.
- 13.2 No more than 20% of the portfolio may be invested in securities of a single agency of the U.S. government, which does not provide the full faith and credit of the U.S. government.
- 13.3 No more than 5% of the portfolio may be invested in securities of any one issuer, other than Supranationals, the U.S. government or its agencies. Investment in mutual funds is not governed by this Section 13.3. See Section 13.8 for conditions of purchase of mutual funds.
- 13.4 No individual holding shall constitute more than 5% of the total debt outstanding of any issuer.
- 13.5 No more than 40% of the portfolio may be invested in banker's acceptances.
- 13.6 No more than 40% of the portfolio may be invested in commercial paper.
- 13.7 No more than 30% of the portfolio may be invested in medium-term (corporate) notes.
- 13.8 No more than 20% of the portfolio may be invested in mutual funds. No more than 10% of OC San's portfolio may be invested in shares of beneficial interest of any one mutual fund. Money market mutual funds are limited to 20% per issuer and are not subject to the 10% stipulation.

- 13.9 No more than 30% of the portfolio may be invested in negotiable certificates of deposit.
- 13.10 No more than 10% of the portfolio may be invested in eligible municipal bonds.
- 13.11 No more than 20% of the Long Term Operating Monies portfolio may be invested in a combination of mortgage-backed securities, CMOs and asset-backed securities.
- 13.12 No more than the statutory maximum may be invested in LAIF.
- 13.13 No more than 15% of the portfolio may be invested in the Orange County Investment Pool.
- 13.14 No more than 20% of the portfolio may be invested in repurchase agreements.
- 13.15 No more than 5% of the portfolio may be invested in reverse repurchase agreements.

14.0 **Maximum Maturities:**

To the extent possible, OC San will attempt to match its investments with reasonably anticipated cash flow requirements. The Treasurer shall develop a five-year cash flow forecast, which shall be updated quarterly. Based on this forecast, the Treasurer shall designate, from time-to-time, the amounts to be allocated to the investment portfolio. OC San monies invested in accordance with this policy are divided into two categories:

- 14.1 **Liquid Operating Monies.** Funds needed for current operating and capital expenditures are known as Liquid Operating Monies.
  - 14.1.1 The maximum final stated maturity of individual securities in the Liquid Operating Monies account portfolio shall be one year from the date of settlement.
  - 14.1.2 The average duration of the Liquid Operating Monies account portfolio shall be recommended by the Treasurer based on OC San's cash flow requirements but may never exceed 180 days.
- 14.2 **Long Term Operating Monies.** Funds needed for longer term purposes are known as the Long Term Operating Monies.
  - 14.2.1 The maximum final stated maturity of individual securities in the Long Term Operating Monies account portfolio shall be five years from the date of settlement.



14.2.2 The duration of the Long Term Operating Monies account portfolio shall be recommended by the Treasurer based on OC San's five-year cash flow forecast but may never exceed 60 months.

14.2.3 The duration of the Long Term Operating Monies account portfolio shall never exceed 120% of the duration as established in accordance with Section 14.2.2.

14.2.4 The duration of the Long Term Operating Monies account portfolio shall never be less than 80% of the duration as established in accordance with Section 14.2.2.

#### 15.0 **Internal Control:**

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

#### 16.0 **Performance Objectives and Benchmarks:**

16.1 **Overall objective.** The investment portfolio of OC San shall be designed with the overall objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with investment risk constraints and reasonably anticipated cash flow needs.

16.2 **The Liquid Operating Monies.** The investment performance objective for the Liquid Operating Monies shall be to earn a total rate of return over a market cycle which exceeds the return on a market index approved by the Administration Committee and by the Board of Directors, when the duration of the portfolio is established. This market index is more fully described in Board Resolution No. OC SAN 22-36 (see Appendix "B").

16.3 **The Long Term Operating Monies.** The investment performance objective for the Long Term Operating Monies shall be to earn a total rate of return over a market cycle which exceeds the return on a market index selected by the Administration Committee and approved by the Board of Directors, when the duration of the portfolio is established. This market index is more fully described in Board Resolution No. OC SAN 22-36 (See Appendix "B").

#### 17.0 **Reporting:**

17.1 Monthly transaction reports in accordance with California Government Code Section 53607 shall be submitted by the Treasurer to the Board of Directors.

17.2 Quarterly investment reports will be submitted by the Treasurer to the Administration Committee which shall forward the reports to the Board of Directors. The quarterly reports shall provide clear and concise status information on OC San's portfolios at the end of each reporting period,

including performance measures using the benchmarks described in Section 16.0 of this Investment Policy. These reports shall contain listings of individual securities held at the end of each reporting period, and shall disclose, at a minimum, the following information about the risk characteristics of OC San's portfolio:

17.2.1 Cost and accurate and complete market value of the portfolio.

17.2.2 Modified duration of the portfolio compared to Benchmark.

17.2.3 Dollar change in value of the portfolio for a 1% change in interest rates.

17.2.4 Percent of portfolio invested in reverse repurchase agreements, and a schedule which matches the maturity of such reverse repurchase agreements with the cash flows which are available to repay them at maturity.

17.2.5 For the Liquid Operating Monies account only, the percent of portfolio maturing within 90 days.

17.2.6 Average portfolio credit quality.

17.2.7 Percent of portfolio with credit ratings below "A" by any rating agency, and a description of such securities.

17.2.8 State that all investments are in compliance with this policy and the California Government Code or provide a listing of any transactions or holdings which do not comply with this policy or with the California Government Code.

17.2.9 Time-weighted total rate of return for the portfolio for the prior three months, six months, nine months, twelve months and since inception compared to the Benchmark returns for the same periods.

17.2.10 State that sufficient funds are available for OC San to meet its operating expenditure requirements for the next six months, or if not, state the reasons for the shortfall.

17.3 OC San's Treasurer shall meet quarterly with the Administration Committee to review investment performance, proposed strategies and compliance with this Investment Policy. External investment advisors may be required to attend said meetings at the discretion of the Chairperson of the Administration Committee.

## 18.0 **Investment Policy Adoption and Revision:**

18.1 The Investment Policy of OC San shall be adopted by resolution of the Board of Directors. The Investment Policy shall be reviewed on an annual

basis in accordance with California Government Code Section 53646, by the Administration Committee, which shall recommend revisions, as appropriate, to the Board of Directors. Any modifications made thereto shall be approved by the Board of Directors.

- 18.2 The Administration Committee shall serve as the oversight committee for OC San's Investment program and shall adopt guidelines for the ongoing review of duration, quality and liquidity of OC San's portfolio.





December 29, 2022

Mr. Lorenzo Tyner  
Assistant General Manager & Director of Finance and Administrative Services  
Orange County Sanitation District  
Administration Building  
10844 Ellis Avenue  
Fountain Valley, CA 92708-7018

Re: Investment Policy certification

Dear Lorenzo:

Please accept this letter as confirmation that we have received and reviewed the District's 2023 Investment Policy Statement. We have consulted with District representatives and have agreed to manage the portfolio to the selected benchmarks in accordance with the current investment policy, California Government Code, and the District's objectives of safety, liquidity, and return.

Sincerely,

A handwritten signature in black ink that reads 'William Dennehy II'. The signature is written in a cursive, flowing style with a distinct 'II' at the end.

William Dennehy II, CFA  
Co-Chief Investment Officer



RESOLUTION NO. OC SAN 22-36

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE ORANGE COUNTY SANITATION DISTRICT, AUTHORIZING THE ORANGE COUNTY SANITATION DISTRICT'S TREASURER TO INVEST AND/OR REINVEST THE ORANGE COUNTY SANITATION DISTRICT'S FUNDS, ADOPTING THE ORANGE COUNTY SANITATION DISTRICT'S INVESTMENT POLICY STATEMENT AND PERFORMANCE BENCHMARKS, AND REPEALING RESOLUTION NO. OC SAN 21-22

WHEREAS, on December 15, 2021, the Board of Directors adopted Resolution No. OC SAN 21-22, readopting the Orange County Sanitation District's Investment Policy Statement, and establishing specific performance benchmarks and objectives, together with a schedule of frequency of investment performance reports; and

WHEREAS, pursuant to California Government Code Section 53607, the Board of Directors may delegate authority to invest and/or reinvest the Orange County Sanitation District's funds to the Treasurer for a one-year period; and

WHEREAS, pursuant to California Government Code Section 53646, the Orange County Sanitation District is required to review its Investment Policy annually and readopt its Policy at a public meeting, which Policy will establish specific performance benchmarks and objectives, and specific monitoring and reports.

NOW, THEREFORE, the Board of Directors of the Orange County Sanitation District, DOES HEREBY RESOLVE, DETERMINE AND ORDER:

Section 1: That the authority of the Board of Directors to invest or reinvest surplus funds, or to sell or exchange securities so purchased, or to deposit for safekeeping the funds and investments of the Orange County Sanitation District with depositories, as provided for in California Government Code Sections 53608 and 53630, is hereby delegated to the Orange County Sanitation District's Treasurer for a one-year period, January 1, 2023 through December 31, 2023, as authorized by California Government Code Section 53607.

Section 2: That the Board of Directors hereby adopts the Investment Policy Statement of the Orange County Sanitation District.

Section 3: That the Board of Directors hereby adopts the following specific performance benchmarks for their two investment funds in accordance with Section 16.0 of the Orange County Sanitation District's Investment Policy:

LIQUID OPERATING MONIES: The Short-Term Operating Fund will be compared to the three-month Bank of America Merrill Lynch T-Bill Index and the Callan Money Market Funds.

LONG-TERM OPERATING MONIES: The Long-Term Operating Fund will be compared to the Bank of America Merrill Lynch Corporate and Government One-to-Five Year Maturity Index and to the Callan Short Term Fixed Income Group.

Section 4: That the Board of Directors hereby adopts a performance monitoring and reporting schedule, as required by Section 17.0 of the Orange County Sanitation District's Investment Policy.

Section 5: That Resolution No. OC SAN 21-22 is hereby repealed.

PASSED AND ADOPTED at regular meeting of the Board of Directors, Orange County Sanitation District held December 15, 2022.

*Chad Wanke*

Chad Wanke (Dec 16, 2022 11:21 PST)

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Chad P. Wanke  
Board Chairman

ATTEST:

*Kelly Lore*

Kelly Lore (Dec 16, 2022 12:45 PST)

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Kelly A. Lore, MMC  
Clerk of the Board



STATE OF CALIFORNIA )  
 )            ss  
COUNTY OF ORANGE )

I, Kelly A. Lore, Clerk of the Board of Directors of the Orange County Sanitation District, do hereby certify that the foregoing Resolution No. OC SAN 22-36 was passed and adopted at a regular meeting of said Board on the 15th day of December 2022, by the following vote, to wit:

**AYES:** Stephen Faessel, Ryan Gallagher, Marshall Goodman, Patrick Harper, Christine Marick, Sandra Massa-Lavitt, Jordan Nefulda (Alternate), Andrew Nguyen, David Shawver, Chad Wanke, John Withers, Dan Kalmick (Alternate), Farrah Khan (Alternate), Ted Lindsey (Alternate) and Connor Traut (Alternate)

**NOES:** None

**ABSENT:** Brad Avery, Rose Espinoza, Johnathan Ryan Hernandez, Steve Jones, Kim Nichols, Robert Ooten and Donald Wagner

**ABSTENTIONS:** None

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of Orange County Sanitation District this 15th day of December 2022.

Kelly Lore  
Kelly Lore (Dec 16, 2022 12:45 PST)

\_\_\_\_\_  
Kelly A. Lore, MMC  
Clerk of the Board of Directors  
Orange County Sanitation District



## **APPENDIX "C"**

### **GLOSSARY OF INVESTMENT TERMS**

**ASSET-BACKED SECURITIES.** Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

**BANKER'S ACCEPTANCE.** A highly liquid draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**BENCHMARK.** A comparison security or portfolio. A performance benchmark is a partial market index which reflects the mix of securities allowed under a specific investment policy.

**BOOK ENTRY.** The system, maintained by the Federal Reserve, by which most money market securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). These securities do not receive physical certificates.

**BROKER.** A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

**CERTIFICATE OF DEPOSIT (CD).** A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

**COLLATERAL.** Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

**COLLATERALIZED MORTGAGE OBLIGATIONS (CMO).** Classes of bonds which redistribute the cash flows of mortgage securities (and whole loans) to create securities which have different levels of prepayment risk, as compared to the underlying mortgage securities

**COMMERCIAL PAPER.** The short-term unsecured debt of corporations.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR).** The official annual financial report for the District. It includes five combined statements for each individual fund and account group prepared in conformity with 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.

**CUSTODIAN.** A bank or other financial institution that keeps custody of stock certificates and other assets.

**DEALER.** A dealer, as opposed to a broker, acts as a principal in security transactions buying and selling securities for his own account.

**DELIVERY VERSUS PAYMENT (DVP).** Delivery of securities with a simultaneous exchange of money for the securities.

**DERIVATIVE.** Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate or index.

**DIVERSIFICATION.** Dividing investment funds among a variety of securities offering independent returns to avoid excessive exposure to any one source of risk.

**DURATION.** The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See Modified Duration)

**FEDERAL RESERVE SYSTEM.** The central banking system of the U.S. created by Congress, which has supervisory powers over the 12 Federal Reserve regional banks and about 6,000 member banks.

**INTEREST.** The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

**LIQUIDITY.** The speed and ease with which an asset can be converted to cash without a substantial loss of value.

**LOCAL AGENCY.** County, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

**LOCAL AGENCY INVESTMENT FUND (LAIF).** The LAIF is an investment alternative for California's local government and special districts authorized under Sections 16429.1, 2, and 3, of the California Government Code (the "Code"). The LAIF is managed by the State Treasurer's Office, with oversight by the Local Agency Investment Advisory Board. All securities in LAIF are purchased under the authority of Code Sections 16430 and 16480.4. The State Treasurer's Office receives all securities on a delivery versus payment basis using a third party custodian. All securities are purchased at market, with market valuation conducted monthly.

**MARKET VALUE.** The price at which a security can be traded (i.e., purchased or sold).

**MASTER REPURCHASE AGREEMENT.** A written contract covering all future transactions between the parties to repurchase or 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 final date upon which the principal or stated value of a security becomes due and payable.

**MODIFIED DURATION.** Measures the percentage price volatility of a fixed income security or portfolio. Modified duration approximates the change in price for small changes in interest rates, assuming that the cash flow characteristics do not change when the yield curve shifts.

**MONEY MARKET.** The market in which short term debt instruments (T-bills, discount notes, commercial paper and banker's acceptances) are issued and traded.

**MORTGAGE PASS-THROUGH SECURITIES.** Securities collateralized with residential mortgage loans, the principal and interest payments of which are distributed, or "passed-through" to the investor. Many of these securities are issued by agencies of the federal government, including GNMA and FHLMC.

**MONEY MARKET MUTUAL FUNDS.** An investment company that pools money from investors and invest in a variety of short-term money market instruments. The Net Asset Value (NAV) of these funds should remain at \$1.00; however, it is not guaranteed.

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO).** A rating agency designated by the SEC as being nationally recognized. (See Rating Agency)

**NEGOTIABLE CD.** (See Certificates of Deposit)

**ORANGE COUNTY TREASURER'S MONEY MARKET COMMINGLED INVESTMENT POOL (OCCIP).**

A money market investment pool consisting of funds deposited by various entities required to do so by statute, as well as those entities voluntarily depositing monies in accordance with California Government Code Section 53684. The OCCIP is managed by the Orange County Treasurer's Office, with oversight by the Orange County Treasury Advisory Committee.

**PORTFOLIO.** A collection of securities held by an investor.

**PRUDENT INVESTOR STANDARD.** A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

**PRINCIPAL.** The face value or par value of an investment.

**PUBLIC BANK.** A corporation, organized as either a nonprofit mutual benefit corporation or a nonprofit public benefit corporation for the purpose of engaging in the commercial banking business or industrial banking business, that is wholly owned by a local agency, as specified, local agencies, or a joint powers authority.

**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.

**RATING AGENCY.** A company that provides ratings that indicate such company's opinion of the relative credit quality of securities. (See Nationally Recognized Statistical Rating Organization)

**RECEIVABLE-BACKED SECURITIES.** Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

**RECEIVABLE PASS-THROUGH CERTIFICATE.** A debt obligation that is backed by a portfolio of receivables, normally issued by a bank or financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivables portfolio.

**REPURCHASE AGREEMENT (RP OR REPO).** The purchase of securities, on a temporary basis, with the seller's simultaneous agreement to repurchase the securities at a later date at a specified price that includes interest for the buyer's holding period. In essence, this is a collateralized investment whereby the security "buyer" lends the "seller" money for the period of the agreement.

**REVERSE REPURCHASE AGREEMENT (REVERSE REPO).** A short-term transaction in which an investor (seller) sells a government security it owns to a bank or dealer (buyer) under an agreement in which the buyer agrees to sell the security back to the investor on a specified date, at an agreed-upon interest rate.

**SAFEKEEPING.** A service to bank customers whereby securities are held for protection by the bank in the customer's name.

**SECONDARY MARKET.** A market made for the purchase and sale of outstanding issues following the initial sale and distribution.

**SECURITIES & EXCHANGE COMMISSION (SEC).** The federal agency responsible for supervising and regulating the securities industry.

**SEC RULE 15c3-1.** Uniform Net Capital Rule.

**THE BOND MARKET ASSOCIATION (TBMA).** A trade association representing more than 260 securities firms and banks that underwrite, trade and sell debt securities. The TBMA, formerly

known as the Public Securities Association, provides a forum through which industry professionals can respond to current issues and foster improvements in the legislative, regulatory, educational and market practices in the bond market.

**TOTAL RATE OF RETURN.** A measure of a portfolio' performance over time. It is the internal rate of return which equates the beginning value of the portfolio with the ending value and includes interest earnings and realized and unrealized gains and losses on the portfolio.

**U.S. TREASURY SECURITIES.** Securities issued by the U. S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

**Treasury Bills.** Non-interest-bearing discount securities with maturities under one year issued by the U. S. Treasury to finance the national debt.

**Treasury Notes.** Interest-bearing obligations of the U. S. Treasury with maturities ranging from two to ten years from date of issue.

**Treasury Bonds.** Interest-bearing obligations issued by the U. S. Treasury with maturities that range from ten to thirty years from date of issue.

**UNIFORM NET CAPITAL RULE.** Requirement of the Securities and Exchange Commission 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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