



Policy No. 23-03 Investment Policy

Purpose: This Investment Policy (Policy) establishes guidelines for the management of cash, deposits, and investments (together, “Funds”) at Desert Community Energy (DCE).

It is the policy of DCE to invest public funds in accordance with the requirements of State law to achieve a market rate of return while minimizing the potential for losses, to meet daily cash flow needs of DCE and to comply with all laws of the State of California regarding the investment of public funds. The ultimate goal is to enhance DCE’s financial condition while protecting its financial assets.

This investment policy is intended to provide guidelines for the prudent investment of DCE’s temporarily idle cash and to identify DCE’s policies regarding the investment process. Investments of public funds shall be made in accordance with the following policy.

I. Investment Objectives

When managing Funds, DCE’s primary objectives, in the following order of importance, shall be to (1) safeguard the principal of the Funds, (2) meet the liquidity needs of DCE, and (3) achieve a return on investment on Funds in DCE’s control.

- A. **Safety:** Safety of principal is the foremost objective of cash and investment management activities. The investment of Funds shall be undertaken in a manner that seeks to ensure the preservation of principal. It is recognized, however, that in a diversified portfolio, occasional measured losses are inevitable, and must be considered within the context of overall investment return. Principal shall be preserved by mitigating:
 - 1. **Credit Risk**, the risk of loss due to the failure of the issuer of the security, shall be mitigated by investing in only the highest quality securities; bi diversifying investments; and by pre-qualifying securities brokers and public depositories; **and**
 - 2. **Market Risk**, the risk of loss due to a decline in bond prices because of rising market interest rates, shall be mitigated by structuring the portfolios so that issues mature concurrently with the City’s anticipated cash requirements, thereby eliminating the need to sell securities prematurely on the open market.
- B. **Liquidity:** The Funds of DCE shall remain sufficiently liquid to meet all operating needs that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the investment of Funds should consist largely of relatively low-duration securities with active secondary markets. Deposits or instruments that are available on demand or securities that mature in less than one year are recommended.
- C. **Return on Investment:** The deposit and investment portfolio shall be designed with the objective of attaining a market rate of return throughout the economic cycle while considering risk and liquidity constraints. The return on deposits and investments is of secondary importance compared to the safety and liquidity objectives described in I.A.

and I.B., above.

II. Standard of Care

DCE will manage Funds in accordance with the Prudent Investor Standard pursuant to California Government Code Section 53600.3¹:

“[G]overning bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds 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, 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.”

Pursuant to Section 53607, the DCE Board hereby delegates responsibility to manage Funds to DCE’s Executive Director or their Designee.

III. Acceptable and Prohibited Investment Types

A. The following types of investments are permitted:

Type of Investment	% of Portfolio Authorized	Additional Approvals
United States Treasury bills, notes, bonds, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.	0-100%	Maximum maturity: 5 Years
Federal Agency or United States government- sponsored enterprise ("GSE") obligations, participations, or other instruments, including those that Federal Agencies or GSEs have either issued or fully guaranteed as to principal and interest.	0-100%	Maximum maturity: 5 years No more than 30% of the portfolio may be invested in any single issuer.
Local Government Investment Pools , such as CAMP or California county investment pools.	0-75%	N/A
State of California Local Agency Investment Fund ("LAIF") that the State Treasurer's Office manages.	Up to LAIF Maximum (\$75,000,000 per account)	N/A
California State and Local Agency debt obligations that a state or local agency, or a department, board, agency, or authority of a state or local agency has issued as general obligation bonds or revenue bonds.	0-25%	Maximum maturity: 5 Years Rated "A" or higher by S&P or by Moody's.
Commercial Paper ("CP") (Non-Pooled Fund) that general corporations organized and operating in the United States with assets exceeding \$500 million issue.	0-25%	Maximum maturity: 270 days Rated "A-1" by S&P or "P-1" by Moody's. No more than 10% of the portfolio may be invested in the CP and MTNs of a single issuer. Asset-backed CP is ineligible for purchase.

Negotiable Certificates of Deposit ("NCO") that a nationally- or state-chartered bank, a savings association, a federal association, or a state-licensed branch of a foreign bank issue. Time Certificates of Deposit ("TCD") that qualified public depositories issue.	0-25%	Maximum maturity: 5 Years
Medium-Term Notes ("MTNs") that corporations organized and operating in the United States, or depository institutions operating in the United States and licensed by the United States or by any state, issue.	0-25%	Maximum maturity: 5 years Rated "A" or higher by S&P <i>or</i> by Moody's. No more than 10% of the portfolio may be invested in the CP and MTNs of any single issuer.
Money Market Mutual Funds ("MMF") that are registered with the SEC under the Investment Act of 1940.	0-20%	Either rated "AAA" by S&P, "Aaa" by Moody's, or "AAA-V-1+" by Fitch (2 of 3), or retains an investment advisor registered or exempt from registration with SEC, with at least 5 years of experience managing a MMF with \$500 million or more in assets.
Repurchase Agreement ("RP") that authorized brokers sell.	0-10%	Maximum maturity: 30 Days Collateral must be United States Treasury, Federal, Agency, or GSE obligations. Zero coupon and stripped coupon instruments are not acceptable as collateral. Collateral must be valued at 102% of cost and adjusted weekly. DCE must have first lien and security interest in all collateral. DCE's custodian must hold collateral. An authorized broker must file a Public Securities Association ("PSA") Master Repurchase Agreement with DCE, and DCE's attorney must review the agreement, prior to the transaction of RP business with that broker. Reverse Repurchase Agreements are specifically not authorized under this investment policy.
Structured Notes in the form of callable securities or "STRIPS" that the United States Treasury, Federal Agencies, or government-sponsored enterprises ("GSEs") issue.	0-20%	Maximum maturity: 5 Years

B. Prohibited Investment Types

The purchase of inverse floaters, range notes, mortgage-derived, interest-only strips, and securities that result in zero-interest accrual if held to maturity are prohibited (Ca/. Govt. Code, section 53601.6). These prohibited investments include, but are not limited to, inverse floaters, range notes, or mortgage-derived interest-only strips. The purchase of asset-backed securities, bond mutual funds, mortgage-backed securities, reverse-repurchase agreements, and derivative contracts (forwards, futures, options, and swaps) are also prohibited.

Active investment strategies, such as market timing, sector rotation, or benchmark indexing are prohibited. Securities lending, short selling, and other hedging strategies are also prohibited.

Local government investment pools and market mutual funds will be exempt from the

prohibitions on derivative contracts, derivative securities, reverse repurchase agreements, securities lending, short selling, and other hedging strategies.

IV. Portfolio Rebalancing

If portfolio percentage constraints are violated due to a temporary imbalance in the portfolio, securities should be held to maturity in order to avoid capital losses; however, if no capital loss would be realized upon the sale, the expected length of time that the portfolio will be imbalanced shall be evaluated and presented to the DCE Board. Portfolio limits are in place to ensure diversification of the portfolio; a small, temporary imbalance will likely not impair the purpose of this policy.

V. Bids and Purchase of Securities

Prior to the purchase of an investment pursuant to this Policy the persons authorized to make investments shall assess the market and market prices using information obtained from available sources including investment services, broker or dealers, and the media. A competitive bid process, when practical, will be used to place all investment purchases and sales transactions. Any competitive bid process used pursuant to this Policy shall be exempt from DCE's Procurement Policy.

VI. Brokers

Broker/dealers shall be selected by the Executive Director or their Designee. Selection of broker/dealers shall be based upon the following criteria: the reputation and financial strength of the company or financial institution, the reputation and expertise of the individuals employed, and pursuant to the requirements of Section 53601.5. The Executive Director or their Designee shall require any selected broker, brokerage firm, dealer, or securities firm to affirm that it has not, within any 48-consecutive month period, made a political contribution to any member of the DCE Board, or any candidate who may join the DCE Board in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, the Political Reform Act, including section 84308, or any applicable DCE Policy, as amended from time to time. The selected broker or dealers shall be provided with and acknowledge receipt of this Policy, the Vendor Communication Policy, and the Campaign Contribution Disclosure Form.

VII. Losses

Losses are acceptable on a sale before maturity and may be taken if required to meet the liquidity needs of DCE or if the reinvestment proceeds will earn an income flow with a present value higher than the present value of the income flow that would have been generated by the original investment, considering any investment loss or foregoing interest on the original investment.

VIII. Delivery and Safekeeping

The delivery and safekeeping of all securities shall be made through a third-party custodian when practical and cost effective as determined by the Executive Director or their Designee and in accordance with Section 53608.

IX. Conflict of Interest

DCE staff shall comply with state law and applicable DCE policies regarding conflicts of interest.

X. Audits

DCE's Funds shall be subject to a process of independent review by its external auditors. DCE's external auditors shall review the investment portfolio in connection with DCE's annual audit for compliance with the Policy pursuant to Section 27134. The results of the audit shall be reported to the DCE Board.

XI. Reporting

A. Quarterly: Under provisions of the California Government Code Section 53646, there shall be a report, at least quarterly, to the DCE Board on the status of all DCE investments. This quarterly report will include the following information: Amount on Deposit, Market Value, Source for Market Values, Yield (rate of interest), Type of Investment and Institution. IF applicable, it shall also list individual securities by investment type, issuer, credit risk rating, CUSIP number, settlement date of purchase, date of maturity, par value and dollar amount invested on all securities, the market value and source of the market value information. In addition, quarterly report shall:

1. State compliance of the portfolio to DCE's investment policy or manner in which the portfolio is not in compliance; and
2. Include a statement denoting the ability of DCE to meet its expenditure requirements for the next six months or provide an explanation as to why sufficient money shall, or may, not be available.

B. Annual Review: This Policy will be reviewed annually by the Executive Director or their Designee. This policy will be updated, as needed, and will remain in effect until a new policy is adopted, at least once every five years.