Forest Lakes Mutual Water Company Investment Policy

1. Policy Purpose

   The purpose of this policy to is identify various requirements and procedures for prudent and systematic investment processes.

2. Policy Scope

   Notwithstanding any provisions of state or federal law governing the investment of idle funds by mutual water companies, the intended scope of this policy is to cover allowable investment activities with funds under the direct authority and control of the Forest Lakes Mutual Water Company (Company or FLMWC).

3. Policy Objectives

   The investment of idle funds shall be governed, in order of priority, by the following investment objectives

   A. Safety of Principal: Safety of principal is FLMWC's most important object, followed by **liquidity** and **yield**. Each investment transaction shall seek first to ensure the avoidance of capital losses, whether from securities defaults or erosion of market value.

   Investment decisions should not incur unreasonable *credit* or *market risks* to obtain current investment income.

   Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in safe securities and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm Company cash flow.

   Market risk, defined as the risk of market fluctuations due to overall changes in interest rate levels, shall be mitigated by structuring the portfolio so that securities mature at the same time that major cash outflows occur, eliminating the need to see securities prior to their maturity. Risk shall also be mitigated by prohibiting the take of short positions (selling securities that FLMWC does not own).

   It is explicitly recognized, however, that in a diversified portfolio occasional measured losses are inevitable and must be considered within the context of overall investment return.

   B. Liquidity Sufficient to Meet Operating Requirements: The Company's investment portfolio will remain sufficiently liquid to enable FLMWC to meet all operating requirements which might be reasonably anticipated. The need to maintain liquidity may be offset to the extent that FLMWC is able to issue short-term notes to meet operating requirements, if beneficial.

   C. Return on Investments (Yield): The investment portfolio shall be managed to attain a market-average rate of return throughout budget and economic cycles, taking into account investment risk constraints and cash flow requirements and applicable laws that may restrict the placement of short-term funds.

4. Prudent Investor Standard

   FLMWC shall adhere to the guidance provided by the "prudent investor standard" in the context of investment portfolio management. Any person authorized to make investments on behalf of FLMWC is a trustee of Company funds and considered a fiduciary who must make investment decisions that a person or reasonable intelligence, discretion and prudence could be expected to make, including the selection of investments that do not increase the risk of loss.

In exercising investment authority with due diligence and prudence in accordance with lawful requirements, persons authorized by the FLMWC Board of Directors to make investments on behalf of the Company will not be held personally liable for any individual investment losses or total portfolio losses.

5. Authority to Invest

   A. Board of Directors: The authority to invest idle funds of the Company shall be vested in the Board of Directors, except as otherwise prescribed in this section.

   B. Delegation of Investment Authority: To ensure that investments are efficiently and effectively made, the Board of Directors delegates investment authority to the General Manager, who shall coordinate all investment transactions with the Finance Committee before any such transaction is finalized.

      i. To the extent possible, investment transactions initiated by the General Manager and considered by the Finance Committee, shall be authenticated/approved by the Treasurer and President. In the absence of the General Manager, the Treasurer is authorized to initiate investment transactions, subject to the approval of the President.

      ii. Investment transactions made by the General Manager or Board Officers in accordance with this section shall be reported to the Board of Directors at their next regularly scheduled meeting.

      iii. As matters of discretion and prudence, nothing in this subsection shall preclude the General Manager or other authorized investors from requesting Board approval for any investment transaction.

6. Ethics and Conflict of Interest

   FLMWC Board and staff members involved in the company's investment activities shall not conduct personal business activity that could conflict with the appropriate and proper execution of the program or could impair their ability to make impartial, prudent investment decisions.

7. Finance Committee Review

   The Finance Committee shall meet periodically to help ensure that the Company's investment program retains consistency with the policy objectives of safety, liquidity and yield, and the adherence to the Prudent Investor Standard.

   The Finance Committee shall meet with the General Manager at least once annually for the specific purposes of determining if policy revisions are necessary resulting from changes in state or federal law or to adopt best industry practices. The committee chair shall be responsible for ensuring that timely policy revisions are prepared for Board consideration, in further accordance with section 8 below (Periodic Reporting and Review of Policy and Portfolio).

8. Periodic Reporting and Review of Policy and Portfolio

   The General Manager shall provide an investment report to the Board of Directors once per quarter, or more or less frequently as may be required by the Board of Directors, that includes sufficient detail to review transaction amounts and dates, maturity dates, individual investments, investment diversity, rates of return and total portfolio value.

   For transparency purposes, the General Manager shall ensure that the Company's investment portfolio is reviewed by the Board of Directors at least once annually at a regularly scheduled meeting.

The General Manager shall also ensure that policy revisions required by changes in state or federal law are timely considered by the Board of Directors, in further accordance with section 7 above (Finance Committee Review).

9. Investment Options

A. Investment Guidelines. The following guidelines shall apply to all investment transactions and investments:

i. No investment will be purchased that matures more than five years from the date of settlement without approval by the Board of Directors at least three months prior.

ii. Maturities of individual investments shall be diversified, attempting to match cash flow requirements where possible.

iii. The use of callable securities is permitted within the investment classes listed.

B. Diversification and Risk Tolerance. To reduce overall portfolio risk while attempting to attain market value rates of return consistent with the primary objectives of safety and availability of funds, investments shall be diversified across types of investments, maturities of those investments, and institutions in which those investments are made.

Generally, the portfolio will be invested in U.S. Treasury and Federal Agency securities with a modes addition of Bankers Acceptances (BAs) and Certificates of Deposit (CDs), and high-grade Medium-Term Corporate Notes.

C. Permitted Investments and Instruments. Permitted investments and instruments, and associated diversification percentages and maturities, are listed in Attachment A to this policy. This list is meant to include examples of acceptable investment vehicles and is not exhaustive.

Certain *public agency* investments prohibited by California Government Code Section 53601.6 may be considered so long as consistency with policy objectives and the Prudent Investor Standard are maintained. Examples of these investments include inverse floaters, range notes, and mortgage-derived interest-only strips.

D. Maximum Maturities. To the extent possible, FLMWC will not invest in securities maturing more than **five years** from the date of purchase. The General Manager or other authorized investors may temporarily exceed this maturity period when repositioning the investment portfolio to match a specific cash flow need, provided that the Board of Directors has approved the purchase prior to the transaction taking place.

E. Relationships with Financial Institutions. The following guidelines will apply to FLMWC's investment relationships:

i. It shall be preferable to purchase investments from either an institution licensed by the state as a broker/dealer, from a national or state-chartered bank, from a federal or state savings institution, from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank, or a member of a securities exchange.

ii. FLMWC shall utilize a minimum of two financial institutions deemed eligible by the Board of Directors (or its designee as specified in Section 5, Authority to Invest) to place investment

purchases. Such institutions shall be periodically evaluated by the Finance Committee to ensure continued eligibility.

iii. Eligible financial institutions must provide FLMWC with annual financial statements if deemed necessary by the General Manager, proof of Financial Industry Regulatory Authority (FINRA) certification, and trading resolution.

F. Investments Not Permitted. Impermissible investments include those not allowable under state or federal laws as they specifically apply to mutual water companies.

10. Safekeeping, Custody, and Internal Control

All company investments shall have the Forest Lakes Mutual Water Company as the registered owner, and all interest and principal payments and withdrawals shall identify Forest Lakes Mutual Water Company as the payee.

All securities shall be kept with a qualified financial institution, contracted by FLMWC as a third-party custodian. To the best extent possible, securities should be delivered before company funds are released.

To ensure policy compliance and adequate internal controls, auditable records of all investment transactions shall be kept that will be reviewed as part of the annual external audit process.

Attachment A

Examples of Permitted Investments and Maturities

Permitted Instruments	City Policies/Limitations
U.S. Treasuries	**Dollar Maximum:** None **Term Maximum:** 5 Years
Government Sponsored Enterprises* (US Agencies)	**Term Maximum:** 5 Years **Portfolio Maximum:** 60%; 33-1/3% per issuer
Bankers Acceptances	**Term Maximum:** 180 Days **Portfolio Maximum:** 20%; 5% per issuer
Commercial Paper	**Term Maximum:** 270 Days **Portfolio Maximum:** 15%; 5% per issuer (including Medium-Term Notes)
Medium-Term Notes	**Term Maximum:** 5 Years **Portfolio Maximum:** 20%; 10% per sector; 5% per issuer (including Commercial paper) **Ratings Minimum:** Aaa to A1 (Moody's) or AAA to A+ (Standard and Poor's) **Make Whole Call:** Only when the MTN is purchased at a discount (i.e., yield-to-maturity exceeds coupon) or par
Negotiable Certificates of Deposit	**Term Maximum:** 5 Years **Portfolio Maximum:** 20%; lesser of 5% or $1 million perissuer
Repurchase Agreements	**Term Maximum:** 1 Year **Portfolio Maximum:** 20% A Master Repurchase Agreement must be signed with the bank or dealer. (See Collateralization section below.)
Money Market Mutual Funds	**Portfolio Maximum:** 20%; 5% per issuer. Issuer must be institutional government money market mutualfund that abides by SEC regulations and have assets under management in excess of $500+ million.