

Santa Clara Valley Water District Investment Policy Excerpt

<https://s3.us-west-1.amazonaws.com/valleywater.org.us-west-1/s3fs-public/FY%202024%20Investment%20Policy.pdf>

agency, or AA- by Fitch Ratings Service. This excludes funds placed with the Local Agency Investment Fund (LAIF) and Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA) protected investments in banks or credit unions. In addition, Commercial Paper investments will also carry short-term ratings by at least two of the three national rating agencies of P-1 by Moody's Investor Services, A-1 by Standard & Poor's, or F-1 by Fitch. Risk related to adverse changes in interest rates is alleviated by maturity and instrument diversification. Please refer to Exhibit B for a summary of credit rating scales.

3.2 Liquidity

In order to ensure adequate liquidity, the average life of the investment portfolio of Valley Water shall be maintained at approximately two and one-half (2.5) years, but may be adjusted from time-to-time to meet ongoing cash flow needs of the portfolio.

3.3 Return on Investment

Valley Water's investment portfolio shall be designed with the objective of attaining the greatest yield to maturity consistent with the preservation of capital and the maintenance of adequate liquidity.

3.4 Socially Responsible Investment

In addition to the investment objectives of safety, liquidity, and yield, Valley Water encourages investing in corporate securities, banking institutions and state agencies that meet the ESG factors. Valley Water shall use best efforts to follow the ESG Guiding Principles and utilize the Investment Evaluation Scorecard to evaluate and approve such investments to ensure compliance with the ESG factors (Appendix 1).

3.4.1 The ESG factor shall include considerations for local California based businesses.

3.5 California Bank Investments

To the extent permitted by California Government Code, while meeting Valley Water's investment objectives for safety, liquidity and yield, Valley Water encourages investing in Certificates of Deposit issued by California based banks, up to the Federal Deposit Insurance Corporation limit at the time of such investment which is currently set at \$250,000, and up to 30% of the portfolio, as amended.

3.5.1 Keeping investments to local banks, within the Bay Area, to keep money at home and jobs local; invest only in banks with below \$10 billion in assets; and keep a minimum of 4% of liquid cash in banks with \$10 billion in assets and 1% in banks with \$2 billion in assets for a limit of 5 years (short term) at the discretion of the treasurer; such investments may be in the form of collateralized deposits, FDIC/NCUA insured CDs, CDARS, or any other legally allowable deposits.

more national credit rating agencies and shall not exceed 15 percent of Valley Water’s total portfolio book value.

	Valley Water Policy	Government Code
Maturity Limit	5 Years	5 Years
Portfolio Limit	15%	30%
Issuer Limit	1.8%	--
Minimum Credit Rating (at least 2 ratings)	Aa/AA	Aa/AA

7.13 Prohibited Investments

7.13.1 Prohibited Investments

Prohibited investments include securities not listed in this section 7, as well as inverse floaters, range notes, interest only strips derived from a pool of mortgages and any security that could result in zero interest accrual if held to maturity, as specified in Section 53601.6 of the California Government Code, with the following exception:

Beginning January 1, 2021, until January 1, 2026, investments are authorized in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates.

7.13.2 Climate Divestment Investment Restriction

No investments will be made in the top 200 fossil fuel companies that control most of the world’s oil, coal and natural gas supplies. See Exhibit C for the list of the 200 companies as defined by the organization, “350.org.”

7.13.3 Prohibited Banks

No investments will be made in any banks who do not have an Environmental, Social, and Governance (ESG) ranking at or better than the “Average/Medium” category, by at least one of the professional ESG research companies such as Sustainalytics, or other equivalent rankings published by other ESG research firms. Small and local banks/credit unions located within the nine Bay Area counties with total assets at or below \$10 billion are exempt from this provision.

7.14 Investment Sales Prior to Maturity

While the overall investment management philosophy of the portfolio is based on a passive approach focusing on matching investment maturities with anticipated liabilities in the future, sales of outstanding investment positions prior to maturity are permitted so long as a yield enhancement on the total transaction is achieved. Specifically, the reinvestment proceeds from the sale of an investment

APPENDIX 1

Environmental, Social, Governance Factors

GUIDING PRINCIPLES

When evaluating potential investments in corporate and financial institution securities, the Investment Committee shall follow the guiding principles:

Negative Screens

No investments shall be made in companies significantly involved in the production or sale of fossil fuels, tobacco, and other products that are environmentally harmful. Furthermore, to the extent possible while maintaining adequate safety, liquidity and yield of the portfolio, no investments shall be made in companies with a demonstrated record of the following:

- poor practices with respect to environmental regulation, greenhouse gas emissions, toxins, hazardous waste or environment justice
- human rights abuse, violations of international law, and/or materially or otherwise supporting repressive regimes
- endangering rural people's access to the land, water and other resources on which their livelihoods depend
- violating labor laws, abusing or otherwise mistreating workers and/or preventing or impeding unionization
- discrimination based on sexual orientation, gender, race, ethnicity, age or disability
- practices which have significant negative effects on affected communities, particularly those with minority or low-income residents
- restriction of access to affordable medicine in the developing world

Positive Screens

To the extent possible while maintaining adequate safety, liquidity and yield of the portfolio, investments shall be made in companies involved in the production of renewable energy and organic food, local food and sustainable agriculture and generally, invest in companies and investments that demonstrate commitment to:

- environmental sustainability, including reducing greenhouse gas emissions and sustainable forestry
- community development and/or investment, particularly in communities with minority or low-income residents
- diversity in hiring, executives and boards with respect to sexual orientation, gender, race, ethnicity
- living wages for all employees and collective bargaining
- transparency and accountability in corporate governance

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) FACTORS

ENVIRONMENTAL	
Category	Considerations
Climate Change & Pollution	<p>Does the company have a stated commitment to emissions reduction?</p> <p>What is the firm doing to combat climate change?</p> <p>Does the firm participate in carbon crediting/offset programs?</p> <p>Has the company been cited for excessive pollution?</p> <p>Does the company have an emissions reduction program?</p>
Energy Efficiency & Waste Management	<p>Has the firm employed energy efficient design or retrofits in its buildings?</p> <p>Does the firm participate in E-Waste recycling programs?</p> <p>Do the operations require heavy use of chemicals?</p>
Water Use & Management	<p>Where does the company get its water?</p> <p>Have they installed smart filling stations and efficient fixtures?</p> <p>Does the company operate in water-stressed areas?</p>
Land Use & Management	<p>Are company facilities designed to minimize damage to the surrounding habitat?</p> <p>Does the company actively participate in greening or reforestation efforts?</p> <p>Does the company encourage alternative methods of transportation to and from work; if so, does building design facilitate these methods?</p>
SOCIAL	
Category	Considerations
Stakeholder Relations	<p>Are customers treated as key stakeholders in the company?</p> <p>Do minority shareholders have an outlet to voice opinions regarding company operations?</p> <p>Are fair labor standards enforced?</p> <p>Do workers have representation in order to bring concerns to management?</p>
Value Chain Management	<p>Does the firm's supply chain reflect adequate working conditions and respect for human rights?</p> <p>Does the company hold suppliers to stated ethical and moral standards?</p> <p>Does the company have any outstanding litigation over its products; are the products generally safe?</p> <p>Are suppliers practicing sustainable production methods?</p>

Community Impact	<p>Is the firm engaged with local non-profits to combat social issues in the community?</p> <p>Does the company donate a share of profits to advocate for impact issues?</p> <p>Does the company make an effort to hire and promote employees from the surrounding community?</p>
Local/California Business?	<p>In what city is the firm located? Is the business located in the San Jose-San Francisco Metropolitan Statistical Area? Is the business located in California?</p>
CORPORATE GOVERNANCE	
Category	Considerations
Diversity	<p>Are the workplace and board comprised of people from diverse backgrounds and ethnicities?</p> <p>Does the board have a roughly equal number of men and women?</p>
Compensation	<p>What is the ratio of executive pay to worker pay?</p> <p>Is executive compensation based on identifiable metrics?</p> <p>Are employees receiving equal pay for equal work?</p>
Accountability & Audit Quality	<p>Does the company employ a large number of special purpose vehicles and other off-balance sheet entities?</p> <p>Does the audit clearly stake risks to which the firm is exposed?</p>
Cyber/Information Security	<p>Does the company have a stated cyber/information security policy?</p> <p>Has the company been hacked in the last 3 years?</p> <p>What corrections/improvements have been made to prevent future hacks?</p>
Transparency	<p>Are internal discussions about the company kept hidden, or does the company routinely publish information for public consumption?</p> <p>Are the firm's financials easily understood?</p> <p>Is the firm readily accessible and do they respond to requests for comment?</p>