



SPECIAL NOTICE REGARDING CORONAVIRUS DISEASE 2019 (COVID-19) AND PARTICIPATION IN PUBLIC MEETINGS

On March 4, 2020, Governor Newsom declared a State of Emergency resulting from the threat of COVID-19. On September 16, 2021, Governor Newsom signed Assembly Bill No. 361 into law. Assembly Bill No. 361 amends Government Code section 54953(e) by adding provisions for remote teleconferencing participation in meetings by members of a legislative body, without the requirements of Government Code section 54953(b)(3), subject to the existence of certain conditions. The San Bernardino Valley Municipal Water District adopted a resolution determining, by majority vote, that, as a result of the declared State of Emergency, a meeting in person would present imminent risks to the health or safety of attendees. Accordingly, it has been determined that all Board and Workshop meetings of the San Bernardino Valley Municipal Water District will be held pursuant to the Brown Act and will be conducted via teleconference. There will be no public access to the meeting venue.

BOARD OF DIRECTORS WORKSHOP - POLICY **THURSDAY, NOVEMBER 10, 2022 – 2:00 P.M.**

PUBLIC PARTICIPATION

Public participation is welcome and encouraged. You may participate in the November 10, 2022, meeting of the San Bernardino Valley Municipal Water District online and by telephone as follows:

Dial-in Info: (877) 853 5247 US Toll-free

Meeting ID: 831 7559 3663

PASSCODE: 3802020

<https://sbvmwd.zoom.us/j/83175593663>

If you are unable to participate online or by telephone, you may also submit your comments and questions in writing for the District's consideration by sending them to comments@sbvmwd.com with the subject line "Public Comment Item #" (insert the agenda item number relevant to your comment) or "Public Comment Non-Agenda Item". Submit your written comments by 6:00 p.m. on Wednesday, November 9, 2022. All public comments will be provided to the Chair and may be read into the record or compiled as part of the record.

IMPORTANT PRIVACY NOTE: Participation in the meeting via the Zoom app is strongly encouraged. Online participants MUST log in with a Zoom account. The Zoom app is a free download. Please keep in mind: (1) This is a public meeting; as such, the virtual meeting information is published on the World Wide Web and available to everyone. (2) Should you participate remotely via telephone, your telephone number will be your "identifier" during the meeting and available to all meeting participants; there is no way to protect your privacy if you elect to call in to the meeting.



SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT
380 E. Vanderbilt Way, San Bernardino, CA 92408

BOARD OF DIRECTORS WORKSHOP - POLICY

AGENDA

2:00 PM Thursday, November 10, 2022

CALL TO ORDER

Chairperson: Director Botello

Vice-Chair: Director Kielhold

1) INTRODUCTIONS

2) PUBLIC COMMENT

Members of the public may address the Board regarding any item within the subject matter jurisdiction of the Board; however, no action may be taken on off-agenda items except as authorized by law. Each speaker is limited to a maximum of three (3) minutes.

3) DISCUSSION AND POSSIBLE ACTION ITEMS

- 3.1 Quarterly Investment Portfolio Update from PFM Asset Management(Page 2)
[Staff Memo - Quarterly Investment Advisor Update with PFM Asset Management](#)
[PFM Asset Management presentation on the District's investments through Sept 2022](#)

4) FUTURE BUSINESS

5) ADJOURNMENT

PLEASE NOTE:

Materials related to an item on this Agenda submitted to the Board after distribution of the agenda packet are available for public inspection in the District's office located at 380 E. Vanderbilt Way, San Bernardino, during normal business hours. Also, such documents are available on the District's website at www.sbvmd.com subject to staff's ability to post the documents before the meeting. The District recognizes its obligation to provide equal access to those individuals with disabilities. Please contact Melissa Zoba at (909) 387-9228 two working days prior to the meeting with any special requests for reasonable accommodation.



DATE: November 10, 2022

TO: Board of Directors' Workshop - Policy

FROM: Cindy Saks, Chief Financial Officer / Deputy General Manager

SUBJECT: Quarterly Investment Portfolio Update with PFM Asset Management

Staff Recommendation

Receive and file the quarterly portfolio update report from PFM Asset Management.

Summary

Richard Babbe, Senior Managing Consultant of PFM Asset Management will be available via the Zoom meeting to make a presentation on the status of the District's investments based on the current investment strategy.

Background

One of the specific tasks outlined by the Board is to meet quarterly with the investment advisor. The Board approved Investment Advisory services from PFM Asset Management and to continue with the investment strategy developed and adopted by the Board. Periodically over the years the Board has reviewed the investment strategy. On February 10, 2022, the board reviewed and directed staff to continue with the same investment strategy which provides greater portfolio diversity with a slightly longer average maturity while not increasing risk, all of which is in accordance with the District's investment policy.

Fiscal Impact

There is no fiscal impact to receive and file the quarterly investment report and reviewing the District's investment policy.

Attachment

- PFM Asset Management presentation on the District's investments through September 2022

San Bernardino Valley Municipal Water District

Investment Performance Review For the Quarter Ended September 30, 2022

Client Management Team

Sarah Meacham, Managing Director
James Sims, CFA, Managing Director
Ellen Clark, Director
Richard Babbe, CCM, Senior Managing Consultant

PFM Asset Management LLC

633 W 5th St., 25th Floor
Los Angeles, CA 90071
213-415-1699

213 Market Street
Harrisburg, PA 17101-2141
717-232-2723

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Market Update

Current Market Themes



- ▶ The U.S. economy is characterized by:
 - ▶ Persistent high inflation
 - ▶ A deteriorating housing market
 - ▶ Continued personal consumption that is impacting household savings and balance sheets
 - ▶ Worsening economic outlook that is propped up by a strong labor market



- ▶ The Federal Reserve has committed to a heavy-handed policy
 - ▶ Expectations have shifted from a soft landing to a moderate/hard landing, with increased recession risks
 - ▶ Short-term fed funds rate projected to reach 4.25% to 4.50% by year end
 - ▶ Increased pace of quantitative tightening

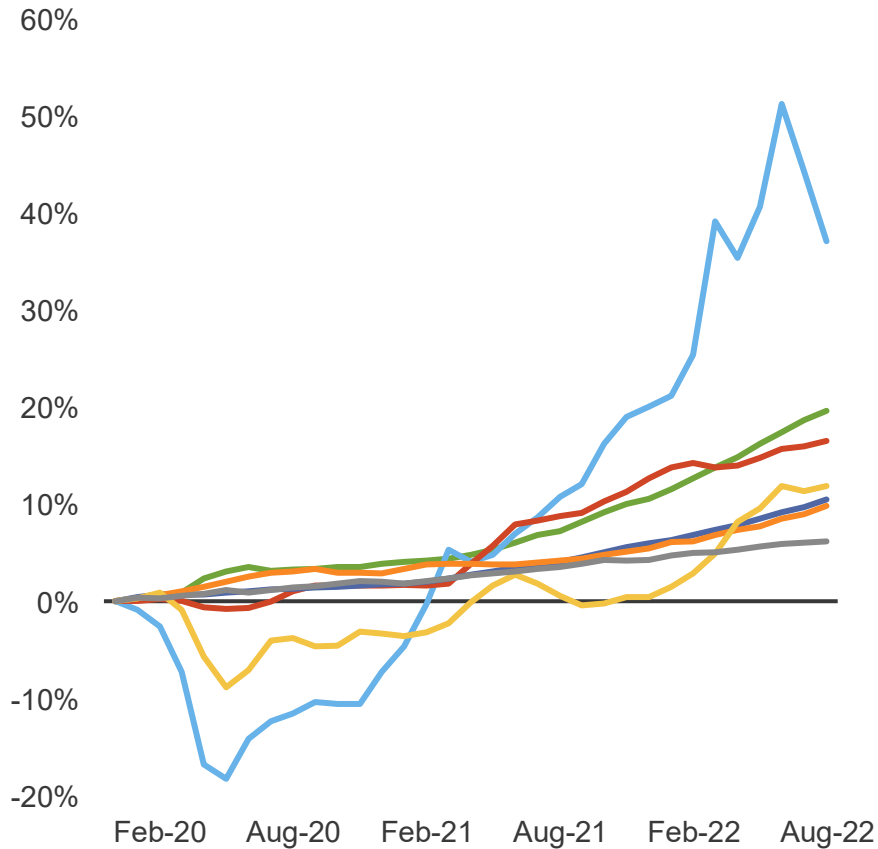


- ▶ Rapidly rising rates negatively impacting valuations and inducing market volatility
 - ▶ Yields across curve reached their highest levels in 14 years
 - ▶ Treasury yield curve remains inverted
 - ▶ Elevated volatility across all major asset classes

Headline Inflation Remains Elevated Despite Recent Reduction in Energy Prices

Price Change of Major CPI Components

Since December 2019



CPI Component	12-mo. Change	Weight ¹	Contribution to YoY CPI
Energy	23.8%	8.8%	1.7%
Food	11.4%	13.5%	1.5%
Goods	7.1%	21.2%	1.5%
Transportation	11.3%	5.9%	0.6%
Shelter	6.2%	32.2%	2.1%
Medical Services	5.6%	6.8%	0.4%
Other Services ²	3.4%	11.6%	0.4%

Detail may not add to total due to rounding.

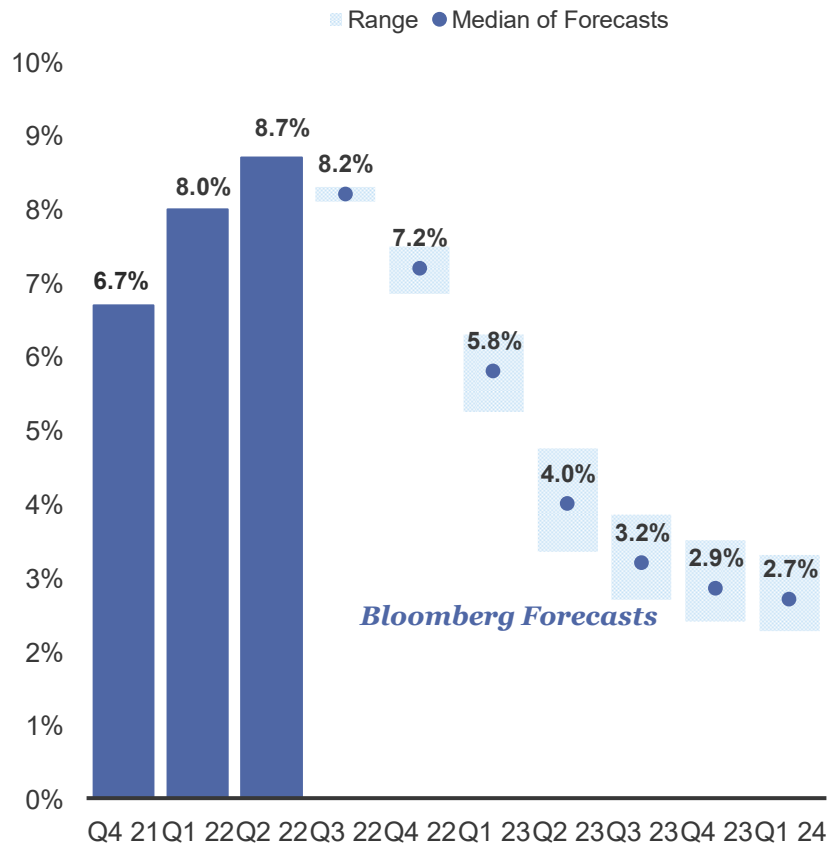
Source: Bloomberg, Bureau of Labor Statistics as of August 2022.

¹Index weights are as of July 2022 as they are published on a one-month lag.

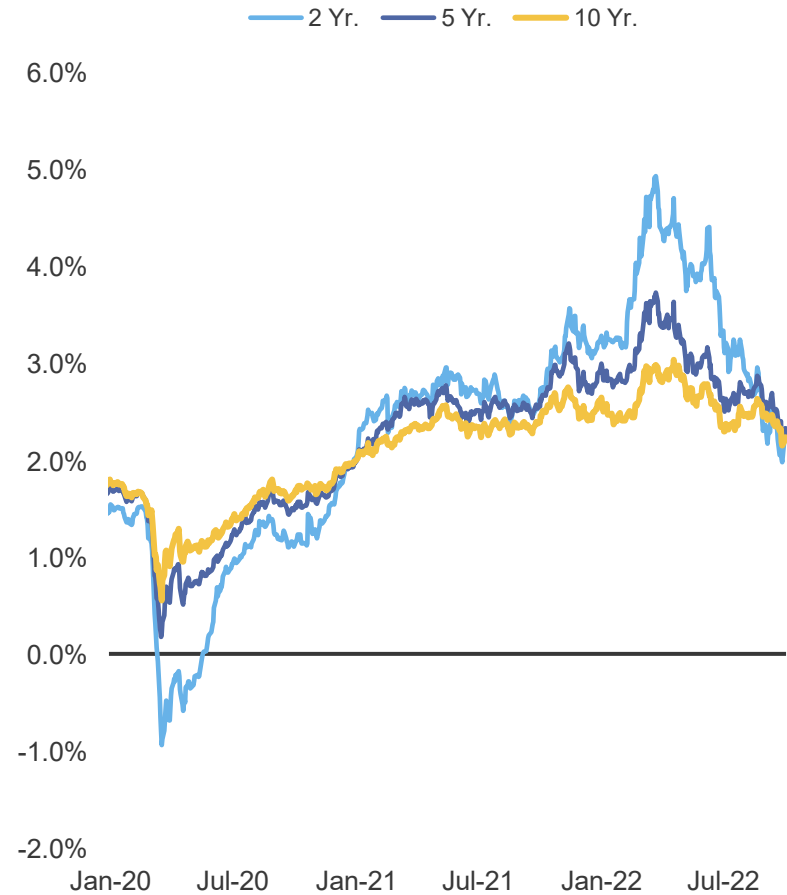
²Other services is a weighted blend of Water/Sewer/Trash, Household Operations, Recreation, Education, Communication Services, and Other Personal Services.

Economist and Market Expectations Point to Slowly Moderating Inflation

U.S. Inflation Forecasts Annualized Rate



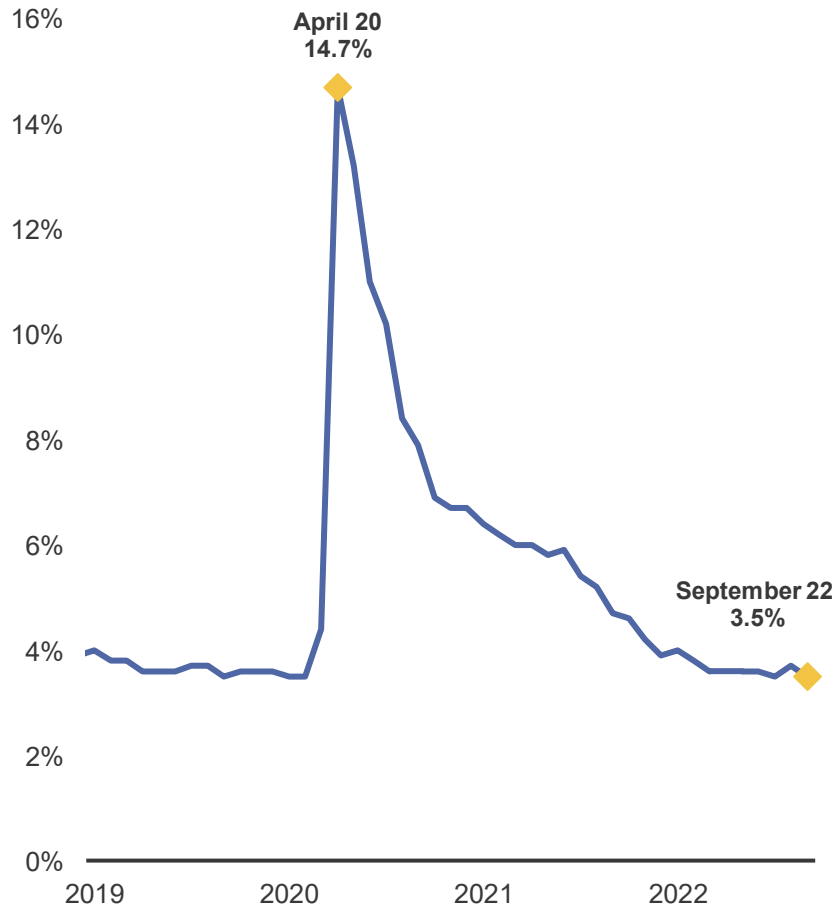
Breakeven Inflation Rates



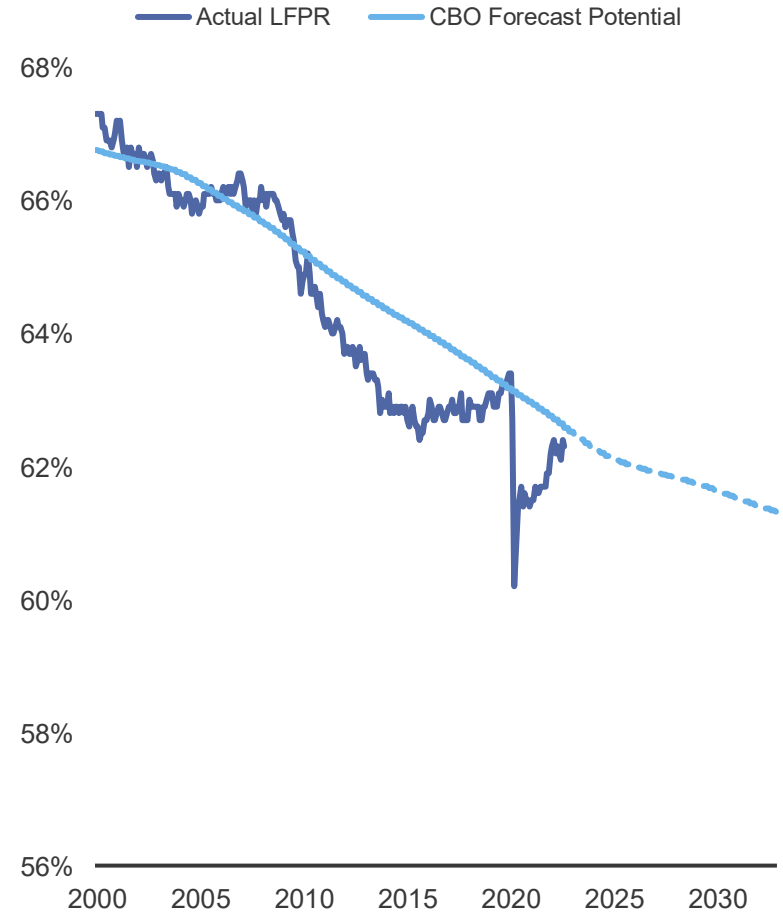
Source: Bloomberg, data as of September 30, 2022.

Labor Force Continues to Recover

Unemployment Rate



Labor Force Participation Rate



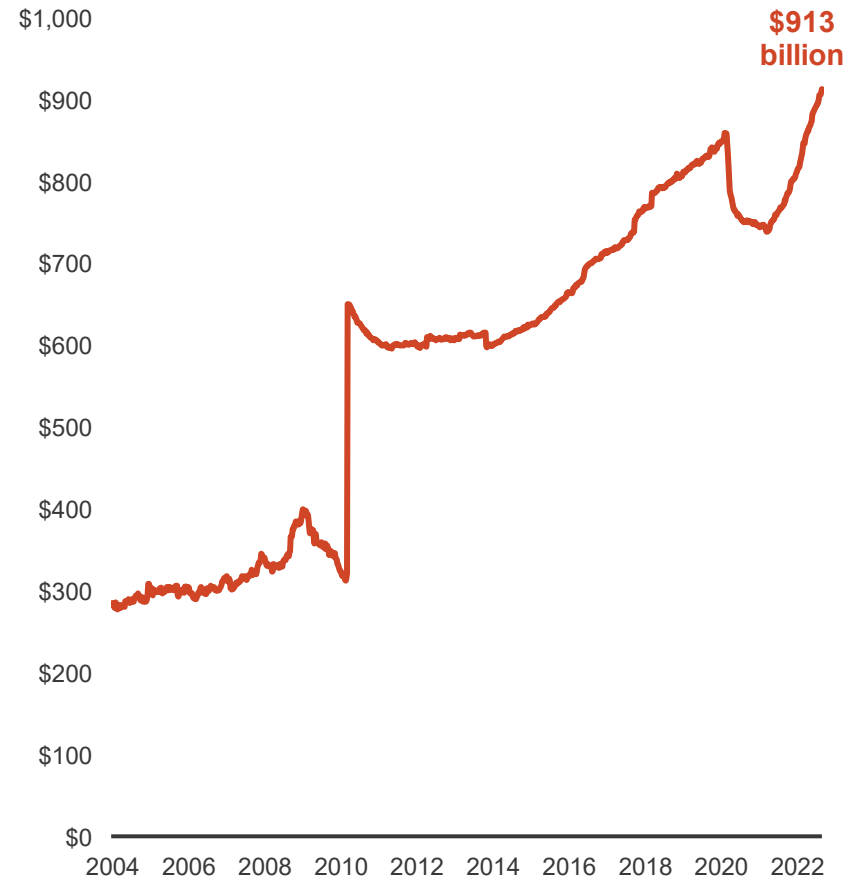
Source: Congressional Budget Office September 2022 economic projections, Bureau of Labor Statistics. Bloomberg, as of September 2022. Data is seasonally adjusted.

Consumption Comes at a Cost to Consumer

Personal Savings as % of Disposable Income



Consumer Loans: Credit Cards and Other Revolving Plans (Billions)



Source U.S. Bureau of Economic Analysis, Federal Reserve, FRED. Most recent data as of August 2022.

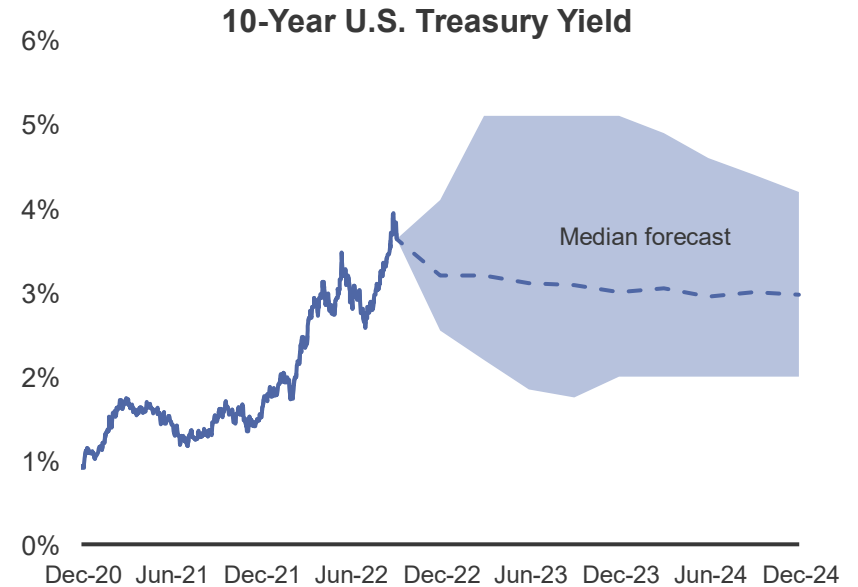
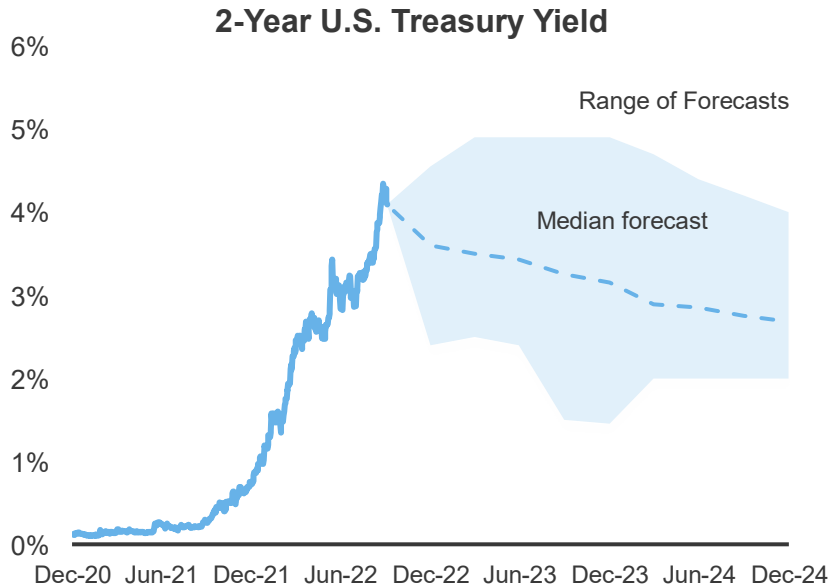
Fed Makes Aggressive Stance Clear But Market Uncertainty Persists

**From the
September 2022
FOMC Meeting
Press Conference**

“Without price stability, the economy does not work for anyone.”

“We are moving our policy stance purposefully to a level that will be sufficiently restrictive to return inflation to 2%.”

“No one knows whether this process will lead to a recession or if so, how significant that recession would be.”



Source: Federal Reserve, Bloomberg, Bloomberg Economist Forecasts as of September 30, 2022.

Account Summary

Combined Portfolio – Composition: By Fund

Fund	June 30, 2022	September 30, 2022
General Fund	\$78,205,403	\$75,310,797
State Water Contract Fund	\$456,495,239	\$429,034,420
Devils Canyon/Castaic Fund	\$4,600,234	\$4,608,847
Total	\$539,300,876	\$508,954,064

Combined Portfolio - Sector Allocations

Security Type	Market Value as of June 30, 2022	% of Portfolio	Market Value as of September 30, 2022	% of Portfolio	Change vs. 6/30/22	Sector Limits
U.S. Treasury	\$194,486,189	36.1%	\$188,417,169	37.1%	1.0%	100%
Federal Agency	\$66,621,855	12.4%	\$67,005,139	13.2%	0.8%	100%
Municipal	\$10,878,542	2.0%	\$9,784,718	1.9%	-0.1%	30%
Negotiable CDs	\$3,886,973	0.7%	\$6,068,766	1.2%	0.5%	30%
Corporate Notes	\$78,344,748	14.5%	\$78,973,911	15.6%	1.0%	30%
Securities Sub-Total	\$354,218,308	65.8%	\$350,249,703	69.0%		
Accrued Interest	\$716,044		\$1,093,182			
Securities Total	\$354,934,353		\$351,342,885			
LAIF	\$74,634,496	13.9%	\$74,774,228	14.7%	0.9%	\$75 Million
Money Market Fund	\$683,735	0.1%	\$216,933	0.0%	-0.1%	20%
CAMP	\$109,048,292	20.2%	\$82,620,018	16.3%	-4.0%	50%
Total Liquidity	\$184,366,524	34.2%	\$157,611,179	31.0%		
Total Investments	\$539,300,876	100.0%	\$508,954,064	100.0%		

Certificate of Compliance

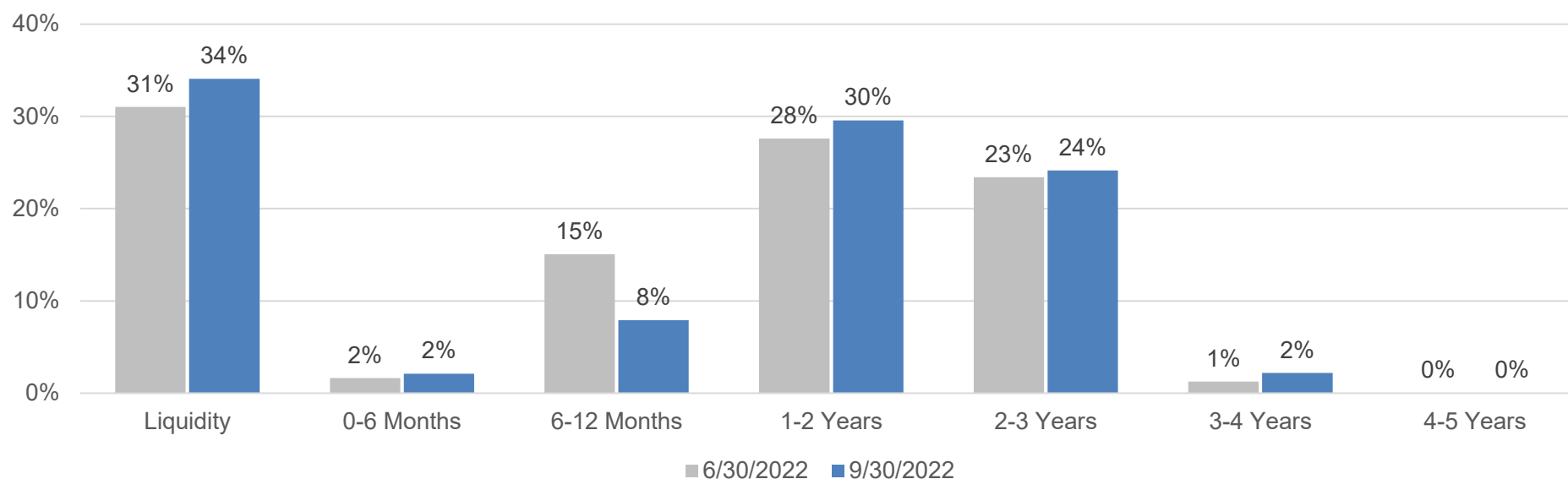
During the reporting period for the quarter ended September 30, 2022, the account(s) managed by PFM Asset Management ("PFMAM") were in compliance with the applicable investment policy and guidelines as furnished to PFMAM.

Acknowledged : *PFM Asset Management LLC*

Note: Pre- and post-trade compliance for the account(s) managed by PFM Asset Management is provided via Bloomberg Asset and Investment Management ("AIM").

Combined Portfolio - Maturity Distribution

- ◆ The District maintains ample liquidity in the LAIF/CAMP.
- ◆ For the managed portfolio, we continue to emphasize maturities in the 1-3 year maturity range, consistent with the portfolio’s benchmark.



Weighted Average Maturity (Years)	June 30, 2022	September 30, 2022
Overall	1.1	1.2
Managed Portfolio	1.7	1.7

Managed Portfolio Total Return Performance

- Total return expresses annualized rate of return over a specified period and incorporates all changes in value in the portfolio, including market value changes, cash flows, and interest earned plus realized gains/losses.
- Interest rates ended the quarter sharply higher, as a result market values fell resulting in negative total returns. Interest rates increased at a faster pace in the past six months than they have anytime in the past forty years.

Periods Ending September 30, 2022					
			Annualized		
BofAML Indices	Duration (years)	Quarter	Past 12 Months	Past 5 Years	Past 10 Years
State Water Contract Fund	1.67	-1.24%	-4.45%	0.85%	0.92%
General Fund	1.16	-0.70%	-3.82%	1.00%	1.01%
ICE BofAML 1 Year UST Index (GC03)	0.98	-0.50%	-1.95%	0.94%	0.66%
ICE BofAML 1-3 Year UST Index (G1O2)	1.83	-1.56%	-4.86%	0.57%	0.60%
ICE BofAML 1-5 Year UST Index (GVQ0)	2.55	-2.28%	-6.78%	0.39%	0.65%

ICE BofAML Indices provided by Bloomberg Financial Markets.

The District's portfolios are not managed on a total return basis, so the indices are shown for information only. Performance on trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).

Periods less than one year are on an unannualized basis. Periods greater than one year are on an annualized basis.

The lesser of 10 years or since inception is shown. Portfolio inception date as of June 30, 2012

Combined Portfolio - Market Value and Accrual Basis Earnings

Market Value Earnings	3 Months	1 Year	3 Years	5 Years	10 Years
Interest Earned ²	\$945,888	\$3,245,709	\$15,203,674	\$28,446,374	\$42,563,455
Change in Market Value	(\$5,004,158)	(\$19,500,428)	(\$17,212,180)	(\$14,255,877)	(\$16,688,125)
Total Dollar Return	(\$4,058,270)	(\$16,254,719)	(\$2,008,506)	\$14,190,497	\$25,875,330

Accrual Basis Earnings	3 Months	1 Year	3 Years	5 Years	10 Years
Interest Earned ²	\$945,888	\$3,245,709	\$15,203,674	\$28,446,374	\$42,563,455
Realized Gains / (Losses) ³	(\$570,957)	(\$372,218)	\$4,364,138	\$3,255,857	\$3,368,908
Change in Amortized Cost	(\$98,535)	(\$420,540)	(\$584,689)	(\$490,993)	(\$2,457,281)
Total Earnings	\$276,396	\$2,452,951	\$18,983,123	\$31,211,238	\$43,475,082

1. The lesser of 10 years or since inception is shown. Portfolio inception date as of June 30, 2012.
2. Interest earned calculated as the ending accrued interest less beginning accrued interest, plus net interest.
3. Realized gains / (losses) are shown on an amortized cost basis.

Important Disclosures

This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation, as it was prepared without regard to any specific objectives or financial circumstances.

Investment advisory services are provided by PFM Asset Management LLC ("PFMAM"), an investment adviser registered with the U.S. Securities and Exchange Commission and a subsidiary of U.S. Bancorp Asset Management, Inc. ("USBAM"). USBAM is a subsidiary of U.S. Bank National Association ("U.S. Bank"). U.S. Bank is a separate entity and subsidiary of U.S. Bancorp. U.S. Bank is not responsible for and does not guarantee the products, services or performance of PFMAM. The information contained is not an offer to purchase or sell any securities. Additional applicable regulatory information is available upon request.

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It is not possible to invest directly in an index. The index returns shown throughout this material do not represent the results of actual trading of investor assets. Third-party providers maintain the indices shown and calculate the index levels and performance shown or discussed. Index returns do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause investment performance to be lower than the performance shown.

The views expressed within this material constitute the perspective and judgment of PFMAM at the time of distribution and are subject to change. Any forecast, projection, or prediction of the market, the economy, economic trends, and equity or fixed-income markets are based upon certain assumptions and current opinion as of the date of issue and are also subject to change. Some, but not all assumptions are noted in the report. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Opinions and data presented are not necessarily indicative of future events or expected performance.

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Important Disclosures

- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Refinitiv, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield-based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.

Glossary

- **Accrued Interest:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **Agencies:** Federal agency securities and/or Government-sponsored enterprises.
- **Amortized Cost:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **Asset-Backed Security:** A financial instrument collateralized by an underlying pool of assets – usually ones that generate a cash flow from debt, such as loans, leases, credit card balances, and receivables.
- **Bankers' Acceptance:** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **Commercial Paper:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **Contribution to Total Return:** The weight of each individual security multiplied by its return, then summed for each sector to determine how much each sector added or subtracted from the overall portfolio performance.
- **Effective Duration:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **Effective Yield:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **Interest Rate:** Interest per year divided by principal amount and expressed as a percentage.
- **Market Value:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.
- **Negotiable Certificates of Deposit:** A CD with a very large denomination, usually \$1 million or more, that can be traded in secondary markets.
- **Par Value:** The nominal dollar face amount of a security.
- **Pass-through Security:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.

Glossary

- Repurchase Agreements: A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- Settle Date: The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- Supranational: A multinational union or association in which member countries cede authority and sovereignty on at least some internal matters to the group, whose decisions are binding on its members.
- Trade Date: The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- Unsettled Trade: A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- U.S. Treasury: The department of the U.S. government that issues Treasury securities.
- Yield: The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- YTM at Cost: The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- YTM at Market: The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.