



**SAN BERNARDINO
VALLEY** | A REGIONAL WATER
AGENCY SINCE 1954

**BOARD OF DIRECTORS WORKSHOP - POLICY/ADMINISTRATION
2:00 pm Thursday, May 2, 2024**

REVISED

In Person:

380 East Vanderbilt Way
San Bernardino, CA 92408

Online via Zoom:

<https://sbvmwd.zoom.us/j/89386241472>

Meeting ID: 893 8624 1472

PASSCODE: 3802020

By Telephone:

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

Meeting ID: 893 8624 1472

PASSCODE:3802020

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, May 1, 2024**. All public comments will be provided to the Board President and may be read into the record or compiled as part of the record.

IMPORTANT PRIVACY NOTE: 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.



REVISED

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

BOARD OF DIRECTORS' WORKSHOP - POLICY/ADMINISTRATION
2:00 PM Thursday, May 2, 2024

CALL TO ORDER

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 with PFM Asset Management
[Staff Memo - Quarterly Investment Portfolio Update with PFM Asset Management](#)
[PFM Asset Management presentation on the District's investments through March 2024](#)

3.2 Legislative Update
[Staff Memo - State Legislative Update](#)

4) REPORTS

4.1 Directors' Travel Requests in accordance with Resolution 1100

5) FUTURE BUSINESS

6) CLOSED SESSION

6.1 CONFERENCE WITH LEGAL COUNSEL - ANTICIPATED LITIGATION Initiation of litigation pursuant to paragraph (4) of subdivision (d) of Govt. Code Section 54956.9: Two potential cases.

7) ADJOURNMENT

DATE: May 2, 2024
TO: Board of Directors' Workshop – Policy/Administration
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.

Attachments

- 1) PFM Asset Management presentation on the District's investments through March 2024

San Bernardino Valley Municipal Water District

Investment Performance Review For the Quarter Ended March 31, 2024

Client Management Team

Monique Spyke, Managing Director
James Sims, CFA, Managing Director
Richard Babbe, CCM, Senior Managing Consultant

PFM Asset Management LLC

633 W 5th St., 25th Floor
Los Angeles, CA 90071
949-230-6896

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:
 - ▶ Robust growth that continues to show surprising strength
 - ▶ Sticky inflation that remains above the Federal Reserve (Fed)'s 2% target
 - ▶ Labor markets continuing to show impressive job gains and low unemployment
 - ▶ Resilient consumer spending supported by wage growth that is outpacing inflation



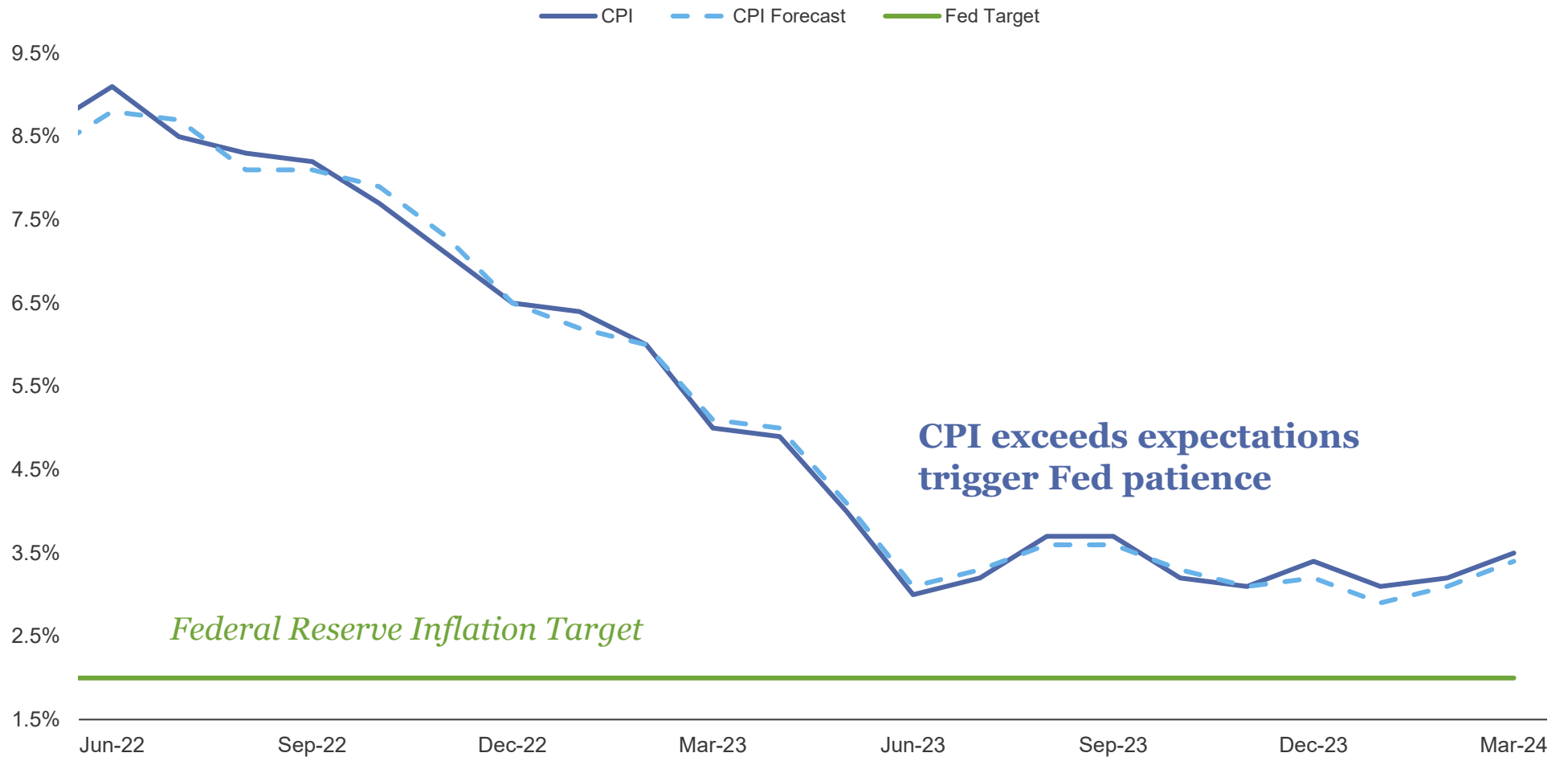
- ▶ Federal Reserve reaffirms rate cut expectations
 - ▶ Forecast of 75 basis points of cuts this year
 - ▶ After entering the year expecting 6 cuts in 2024, markets have adjusted their expectations to only 2 to 3 cuts in 2024
 - ▶ Fed officials reaffirm that restoring price stability is the priority, but further confidence in inflation moving toward the 2% target is needed, which may delay the timing of rate cuts



- ▶ Treasury yields increase following the change in market expectations
 - ▶ Yields on maturities between 2 and 10 years rose 30-40 basis points during the quarter
 - ▶ Yield curve inversion persists
 - ▶ Spreads in most sectors fell to multi-year lows given the strong economic environment

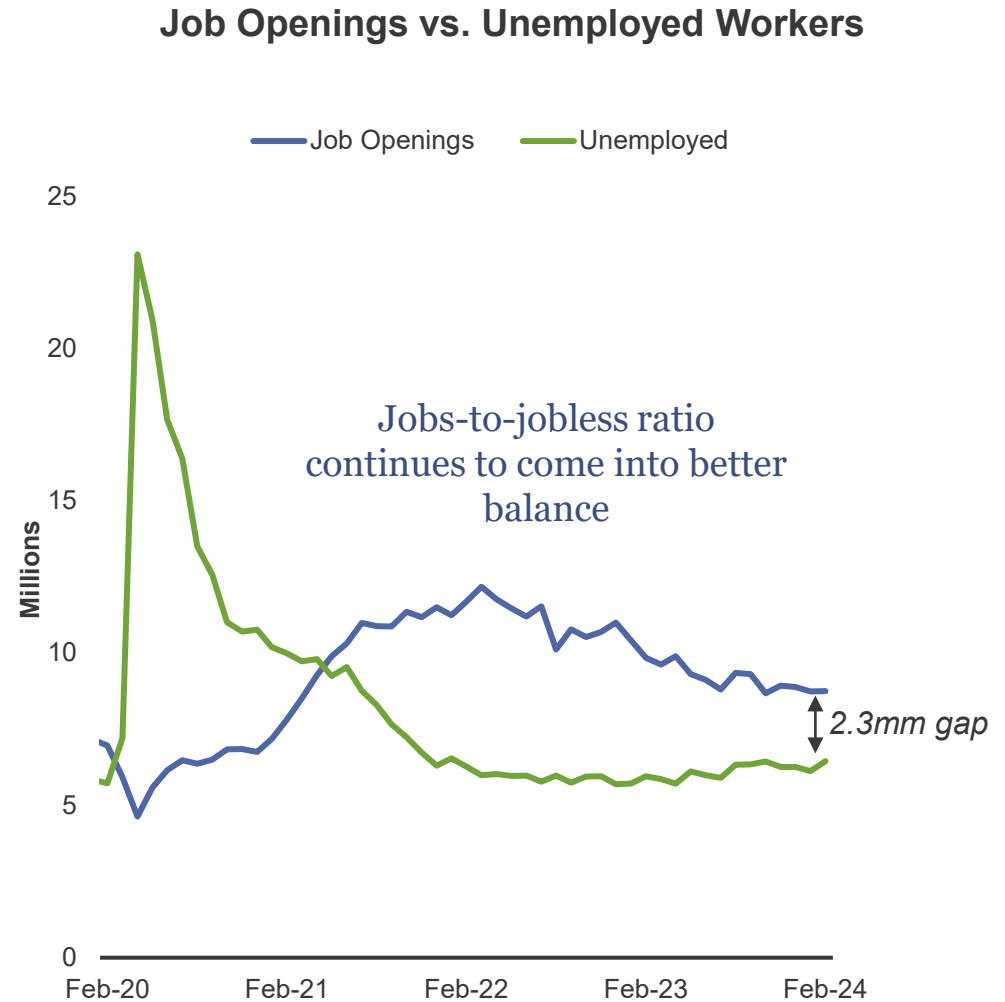
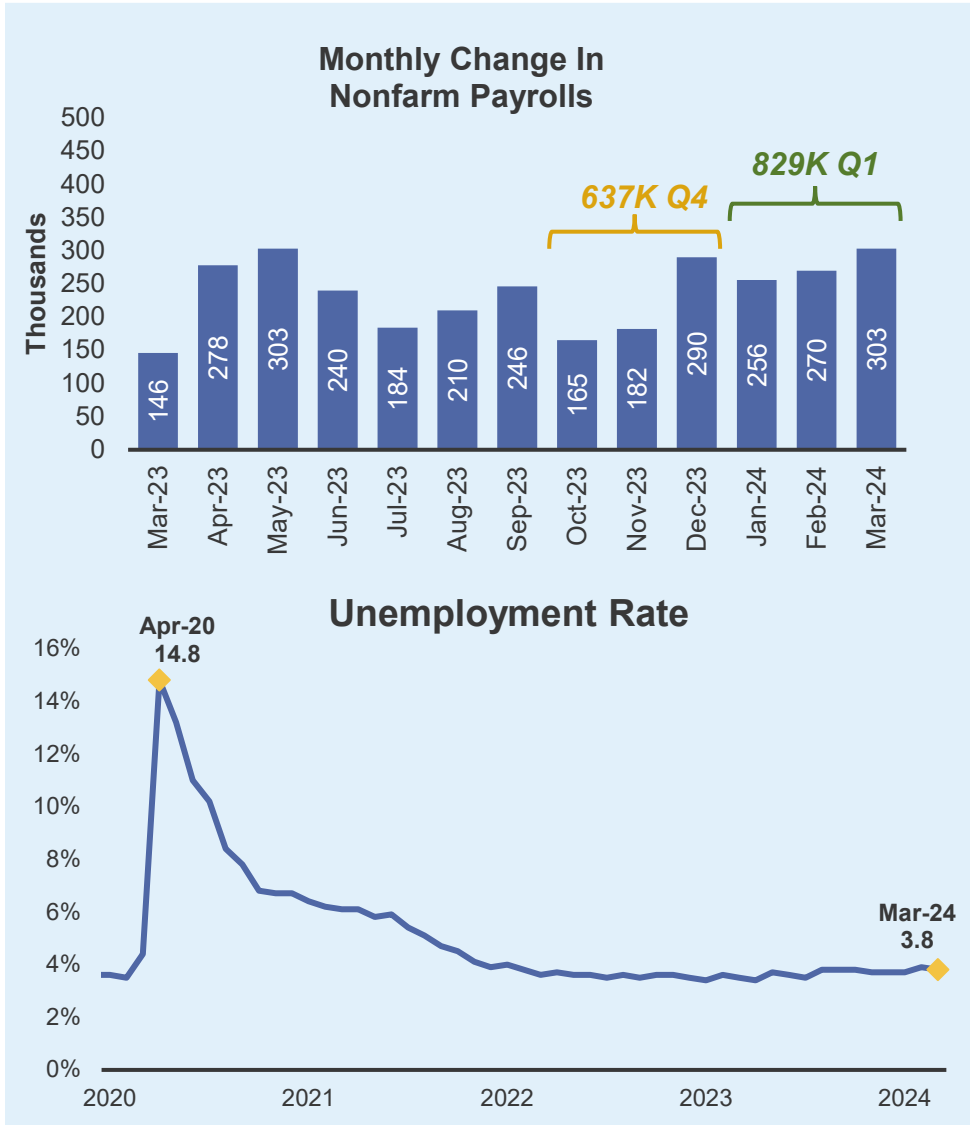
Inflation Remains Range Bound After Significant Decline in CPI in 2022 and Early 2023

Consumer Price Index Year-Over-Year Changes



Source: Bloomberg, as of 4/10/2024.

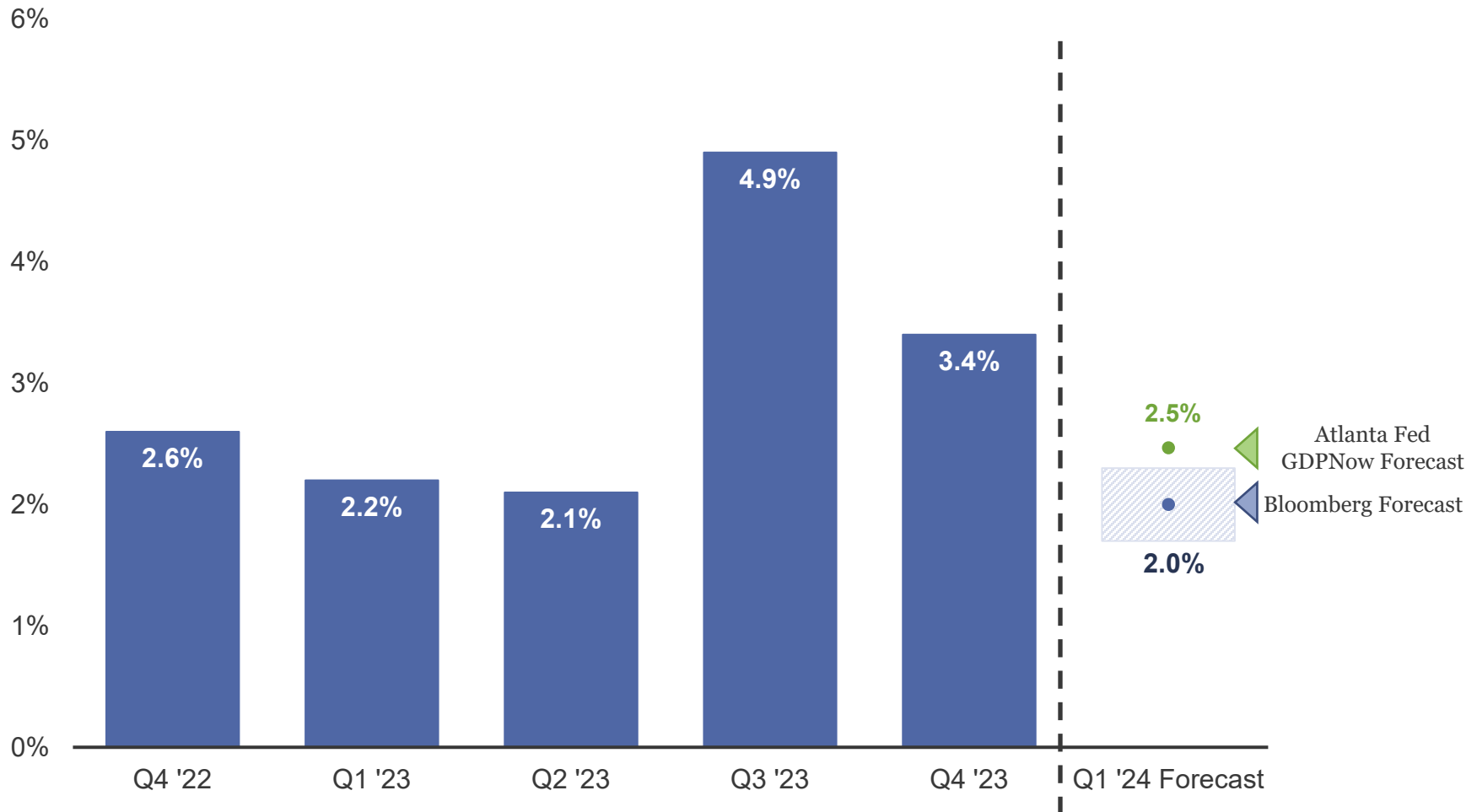
Labor Market Remains Strong



Source: Bloomberg. Job openings as of February 2024. Monthly change in nonfarm payrolls and unemployment rate as of March 2024. Data is seasonally adjusted.

Consumer Spending Continues to Drive Strong Economic Growth

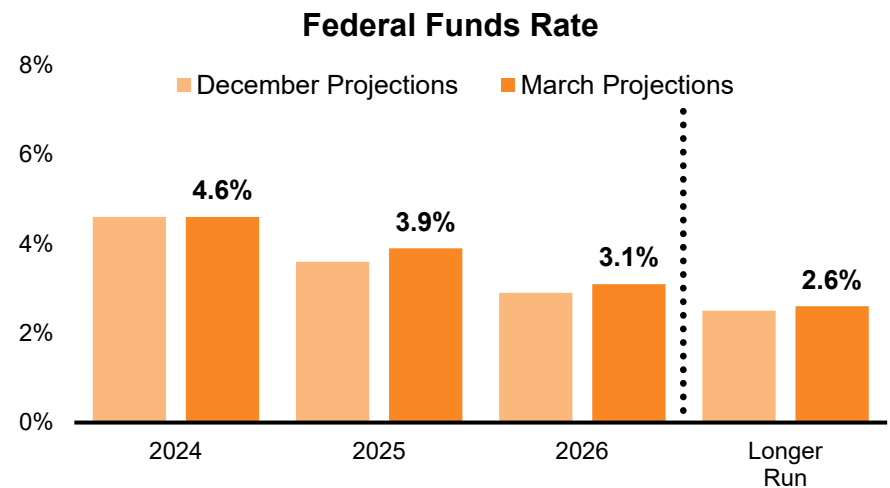
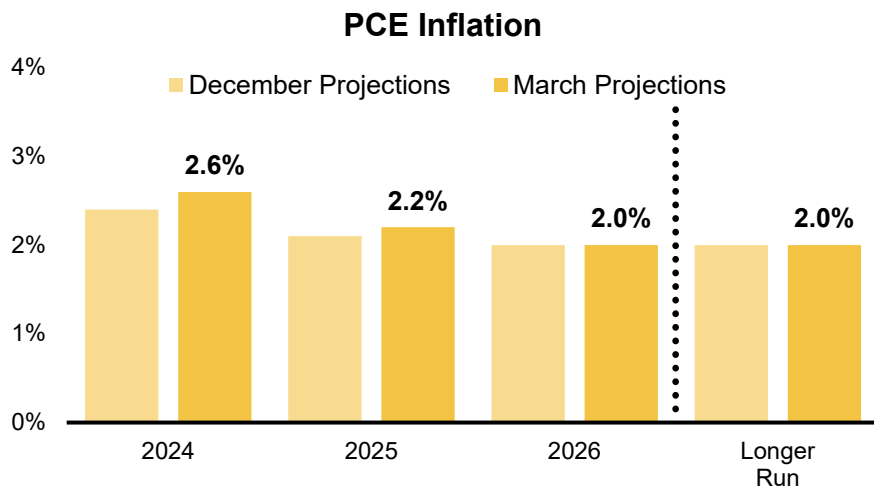
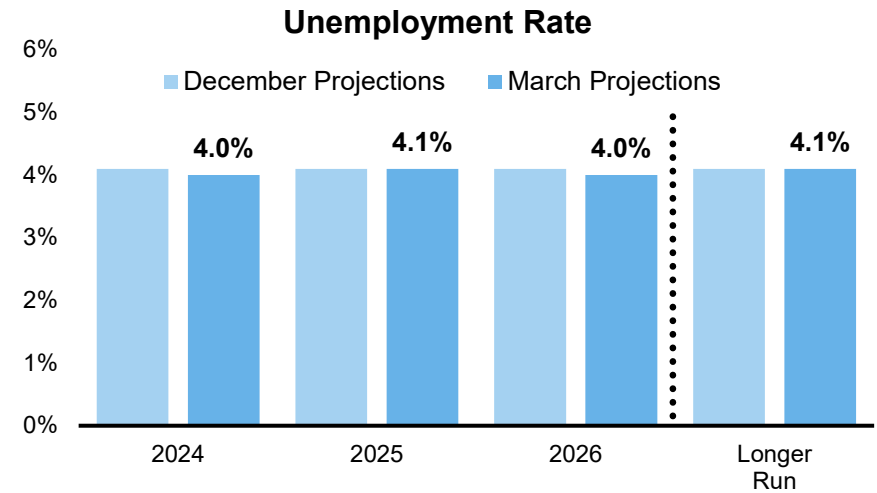
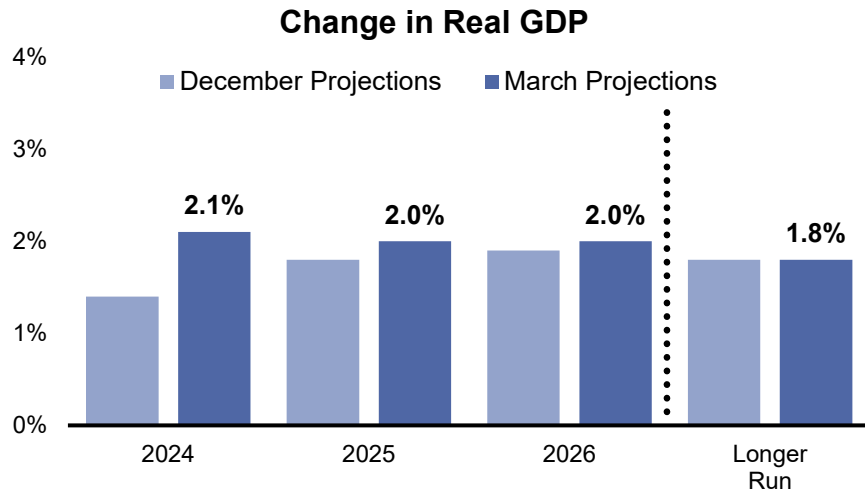
U.S. GDP



Source: Bureau of Economic Analysis, U.S. Department of Commerce; as of March 28, 2024.

GDPNow estimates provided by the Federal Reserve Bank of Atlanta; as of April 4, 2024. The Atlanta Fed GDPNow estimate is a model-based projection not subject to judgmental adjustments. It is not an official forecast of the Atlanta Fed, its president, the Federal Reserve System, or the Federal Open Market Committee. Bloomberg Forecasts as of March 2024.

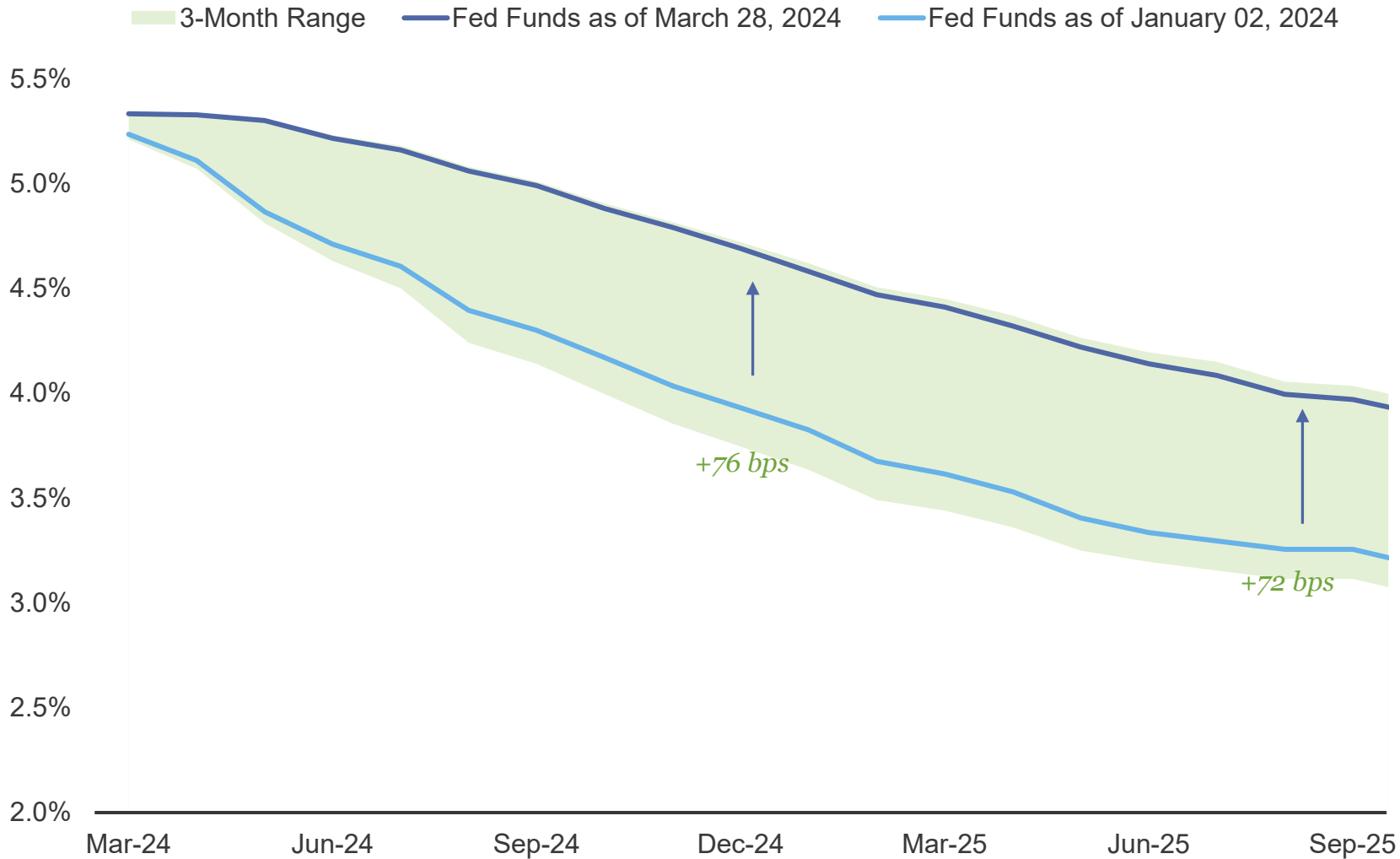
Summary of Economic Projections Show Stronger Economic Story



Source: Federal Reserve, latest economic projections as of March 2024.

Market Reversed Course and Now Expects a Slower Pace of Rate Cuts

Implied Fed Funds Rate



Market reprices expectations for number of cuts in 2024 in response to hotter than expected inflation and a resilient labor market

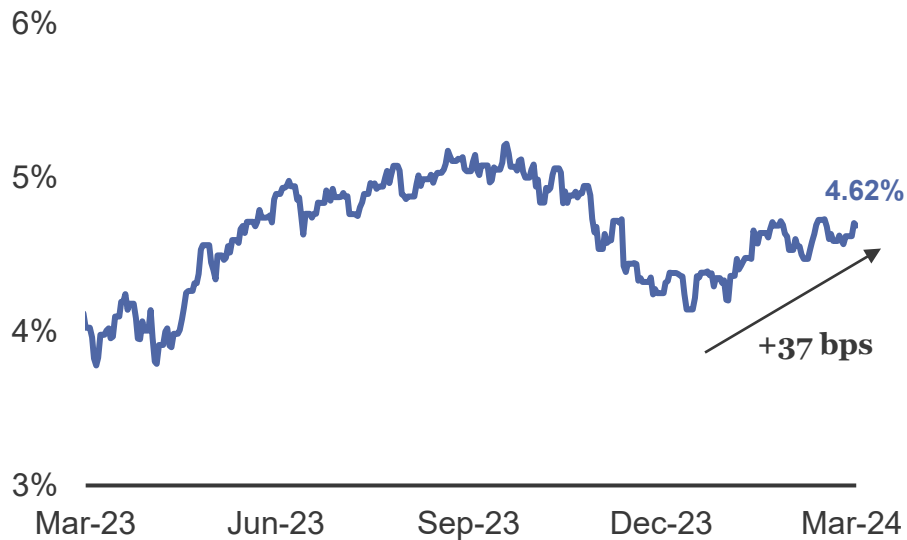
Source: Bloomberg, as of March 2024.

Yields Reprice on Fed Patience

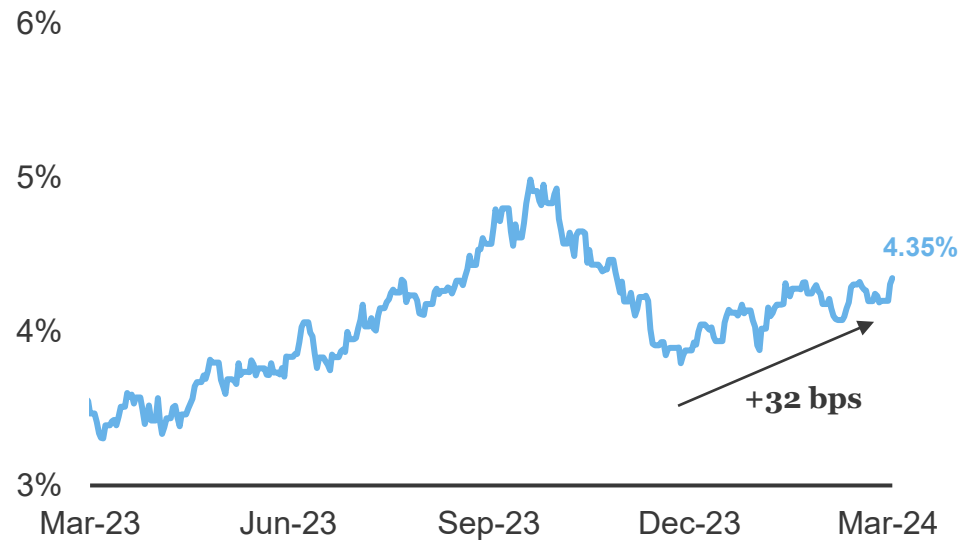
**From the
March 24 FOMC
Meeting
Press Conference**

“...the Committee needs to see **more evidence** to build our **confidence** that inflation is moving down sustainably toward our 2 percent goal, and **we don’t expect that it will be appropriate to begin to reduce rates until we’re more confident** that that is the case”

2-Year Treasury Yield



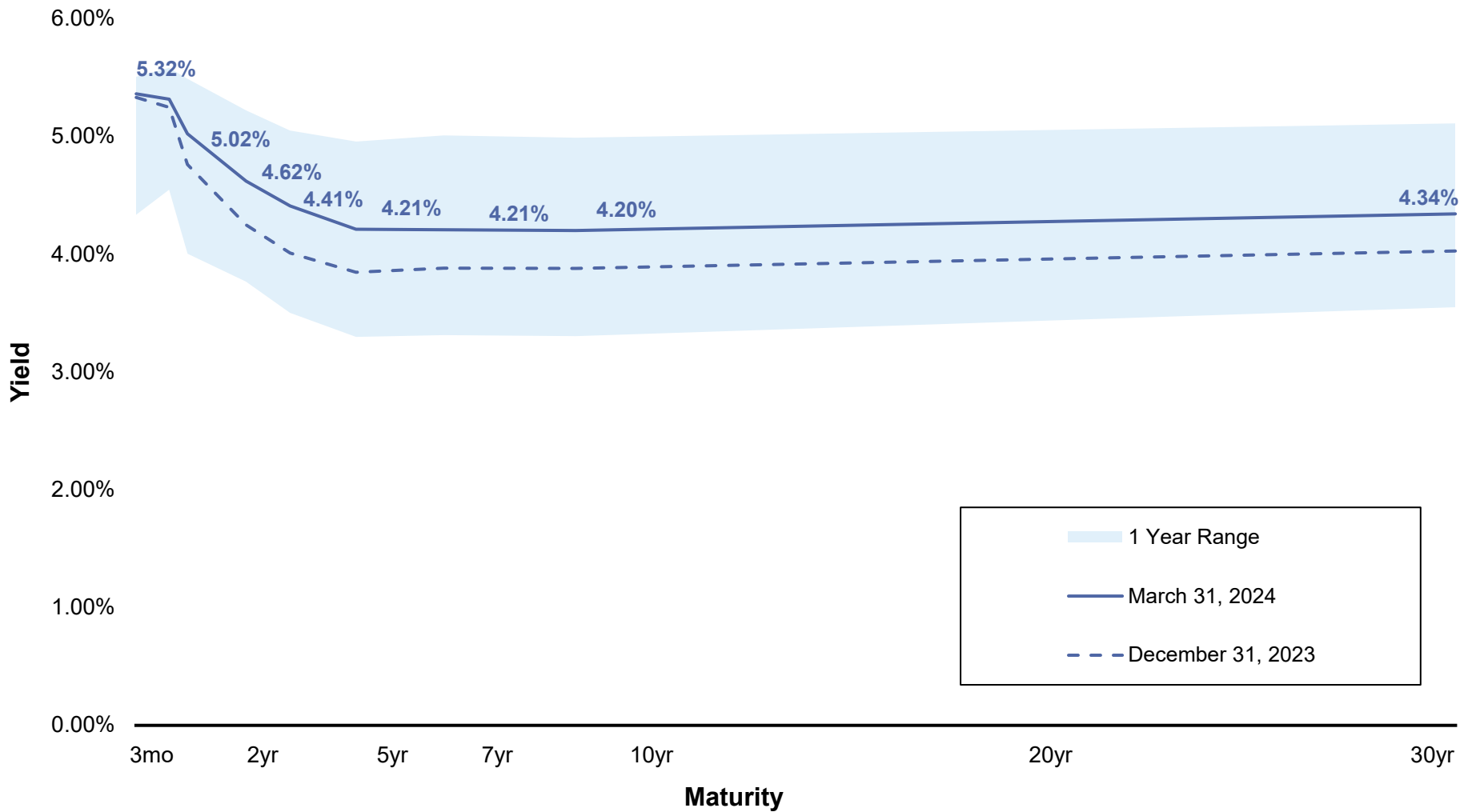
10-Year Treasury Yield



Source: Federal Reserve, Bloomberg, as of 3/31/2024.







Treasury Yields Move Higher as Market Evolves to Revised Fed Expectations

U.S. Treasury Yield Curve



Source: Bloomberg, as of 3/31/2024.

Factors to Consider for 6-12 Months

<p>Monetary Policy:</p>  <ul style="list-style-type: none"> Fed guidance implies a soft landing and 3 rate cuts for 2024. Market expectations have been volatile but recently converged to Fed projections. Globally, central banks are nearing the start of cutting cycles with the Swiss central bank being the first to cut. 	<p>Economic Growth:</p>  <ul style="list-style-type: none"> U.S. resiliency continues as expectations for a soft-landing command center stage. Strength is led by consumers supported by a robust labor market. Eurozone growth set to improve in 2024 H2. Although Chinese growth targets seem aspirational, emerging economies are expected to grow. 	<p>Inflation:</p>  <ul style="list-style-type: none"> Inflation continued to moderate but has proven to be stickier than expected, predominantly in housing and other service sectors. Further upside surprises in inflation indicators may complicate the Fed’s path for monetary policy.
<p>Financial Conditions:</p>  <ul style="list-style-type: none"> Financial conditions continue to soften as the “Fed pivot” remains in play amid sustained strength in various economic indicators. With interest rates elevated, we continue to focus on identifying potential pockets of stress within financial markets. 	<p>Consumer Spending (U.S.):</p>  <ul style="list-style-type: none"> Consumer confidence reached a multi-year high following strong wage growth, a resilient labor market, and slowly moderating inflation. Hiring and wage growth have played a role in boosting personal income, which combined with record U.S. household net worth, supported spending. 	<p>Labor Markets:</p>  <ul style="list-style-type: none"> The labor market remains strong, but a few indicators are moderating from the extreme tightness of 2022. No sign of weakness in typical economically-sensitive industries, like retail, leisure and hospitality, and construction.

● Current outlook ○ Outlook one quarter ago



Statements and opinions expressed about the next 6-12 months were developed based on our independent research with information obtained from Bloomberg. The views expressed within this material constitute the perspective and judgment of PFM Asset Management LLC at the time of distribution (3/31/2024) and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management LLC cannot guarantee its accuracy, completeness, or suitability.

Account Summary

Combined Portfolio - Sector Allocations

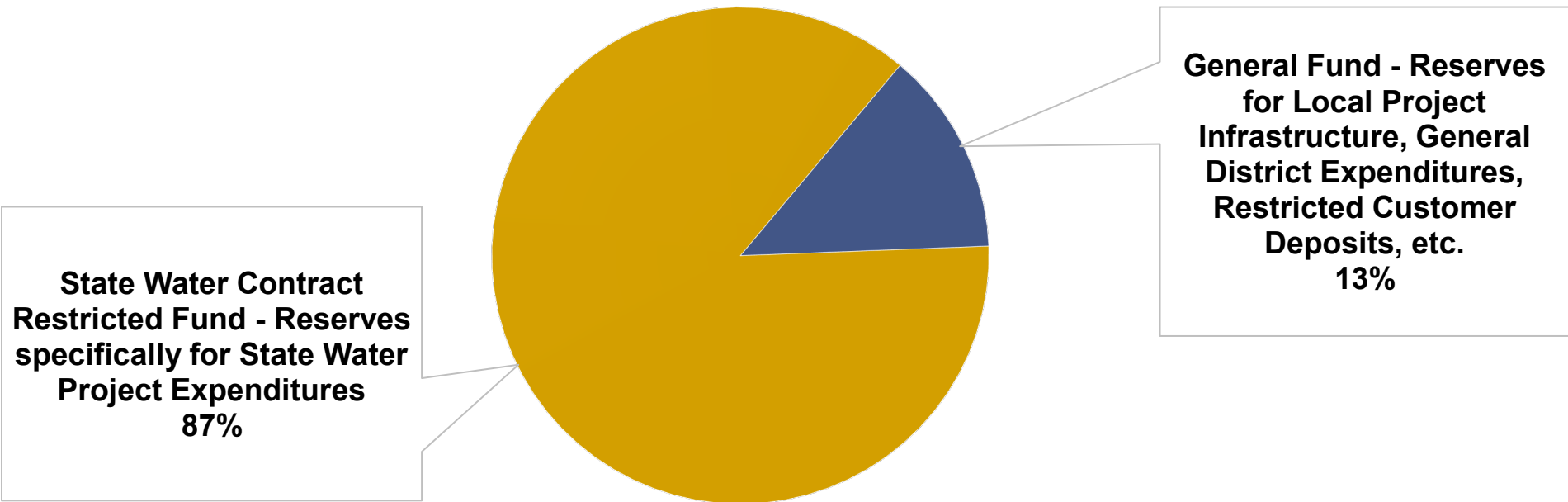
Security Type	Market Value as of December 31, 2023	% of Portfolio	Market Value as of March 31, 2024	% of Portfolio	Change vs. 12/31/23	Sector Limits
U.S. Treasury	\$223,308,335	34.8%	\$226,539,750	36.8%	1.9%	100%
Federal Agency	\$638,446	0.1%	\$638,094	0.1%	0.0%	100%
Municipal	\$3,153,963	0.5%	\$3,167,527	0.5%	0.0%	30%
Negotiable CDs	\$17,158,959	2.7%	\$17,591,263	2.9%	0.2%	30%
Commercial Paper	\$7,511,328	1.2%	\$5,857,336	1.0%	-0.2%	40%
Corporate Notes	\$95,018,443	14.8%	\$94,566,483	15.4%	0.5%	30%
Securities Sub-Total	\$346,789,475	54.1%	\$348,360,453	56.6%		
Accrued Interest	\$3,138,706		\$3,578,406			
Securities Total	\$349,928,180		\$351,938,859			
LAIF	\$74,645,046	11.6%	\$70,394,942	11.4%	-0.2%	\$75 Million
Money Market Fund	\$536,612	0.1%	\$114,823	0.0%	-0.1%	20%
CAMP	\$219,150,066	34.2%	\$197,141,927	32.0%	-2.2%	50%
Total Liquidity	\$294,331,724	45.9%	\$267,651,692	43.4%		
Total Investments	\$644,259,905	100.0%	\$619,590,551	100.0%		

* Note: The CAMP balance includes the proceeds of 2023A Project Fund, which are part of the General Fund.

Combined Portfolio – Composition: By Fund

Fund	December 31, 2023	March 31, 2024
General Fund*	\$93,148,362	\$78,882,635
State Water Contract Fund	\$551,111,543	\$540,707,917
Total	\$644,259,905	\$619,590,551

Combined Portfolio at 3/31/2024



* Note: The General Fund includes the proceeds of 2023A Project Fund, which are invested in CAMP.

Certificate of Compliance

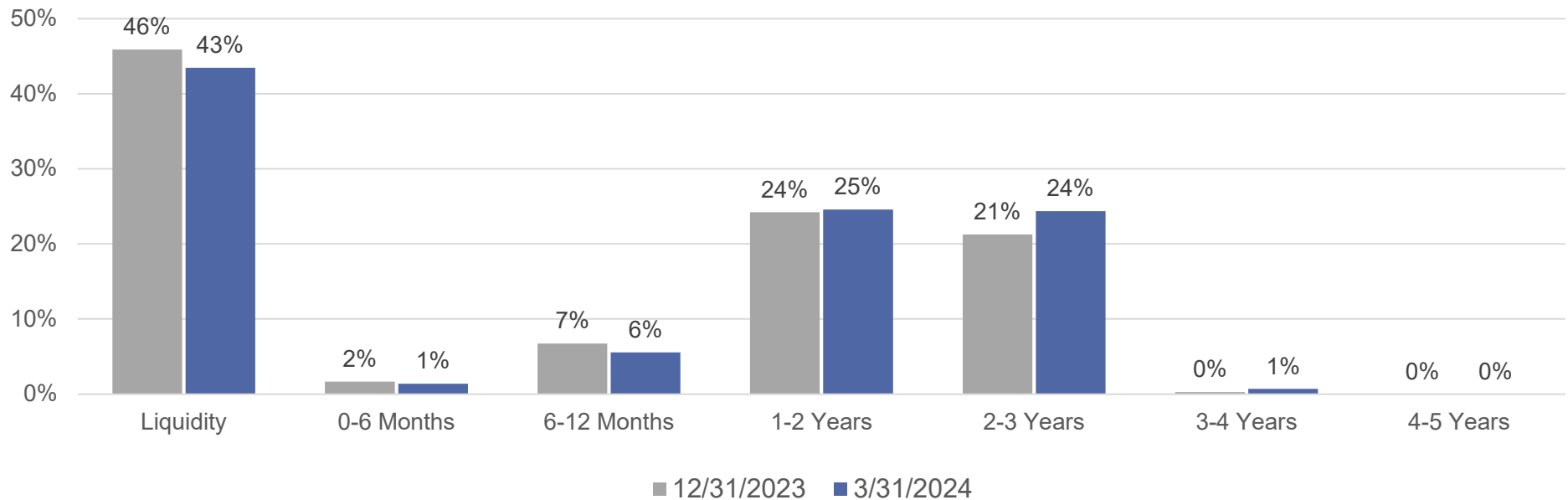
During the reporting period for the quarter ended March 31, 2024, the account(s) managed by PFM Asset Management ("PFMAM") were in compliance with the applicable investment policy and guidelines as furnished to PFMAM.

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 strategies for the portfolios.



Weighted Average Maturity (Years)	December 31, 2023	March 31, 2024
Overall	0.99	1.05
Managed Portfolio	1.83	1.85

Managed Portfolio Total Return Performance

- Despite market value depreciation due to rising interest rates, total returns were positive during the quarter as higher earnings on recent investments more than offset the market value declines.
- 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.

Periods Ending March 31, 2024					
BofAML Indices	Duration (years)	Annualized			
		Quarter	Past 12 Months	Past 5 Years	Past 10 Years
State Water Contract Fund	1.78	0.44%	3.66%	1.50%	1.46%
General Fund	1.30	0.73%	4.30%	1.75%	1.60%
ICE BofAML 1 Year UST Index (GC03)	0.88	0.83%	4.30%	1.66%	1.25%
ICE BofAML 1-3 Year UST Index (G1O2)	1.76	0.30%	2.97%	1.16%	1.07%
ICE BofAML 1-5 Year UST Index (GVQ0)	2.52	-0.02%	2.42%	0.96%	1.12%

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 ¹
Interest Earned ²	\$3,307,011	\$10,430,336	\$18,452,123	\$32,480,335	\$53,342,304
Change in Market Value	(\$1,633,340)	\$2,282,679	(\$13,832,878)	(\$6,418,293)	(\$7,951,687)
Total Dollar Return	\$1,673,671	\$12,713,015	\$4,619,245	\$26,062,042	\$45,390,617

Accrual Basis Earnings	3 Months	1 Year	3 Years	5 Years	10 Years ¹
Interest Earned ²	\$3,307,011	\$10,430,336	\$18,452,123	\$32,480,335	\$53,342,304
Realized Gains / (Losses) ³	(\$917,230)	(\$5,498,684)	(\$7,031,120)	(\$3,421,630)	(\$4,364,602)
Change in Amortized Cost	\$212,007	\$650,968	(\$56,259)	\$135,081	(\$855,518)
Total Dollar Earnings	\$2,601,788	\$5,582,620	\$11,364,744	\$29,193,786	\$48,122,184

1. The lesser of 10 years or since inception is shown. Performance inception date is June 30, 2012.
2. Interest earned calculated as the ending accrued interest less beginning accrued interest, plus net interest activity.
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.

DATE: May 2, 2024
TO: Board of Directors' Workshop – Policy/Administration
FROM: Kelly Malloy, Strategic Communications Manager
SUBJECT: State Legislative Update

Staff Recommendation

Receive and file.

Summary

The District continues monitoring legislative activities through Federal lobbyists, Innovative Federal Strategies, Inc. and State lobbyist firm, The Gualco Group. Both efforts include active legislation tracking, participating in various industry association discussions, facilitating meetings with legislative and regulatory elected officials and staff, and other activities. Representatives from The Gualco Group will participate in the workshop and provide updates on current significant State legislation.

Background

The Gualco Group, Inc., is the District's State lobbyist in Sacramento. Innovative Federal Strategies, Inc. is the District's Federal lobbyist in Washington, D.C. Given the different cyclical timing, State and Federal legislative advocates will alternate giving bi-monthly presentations at the Policy/Administration workshop via Zoom to provide an update on current, significant legislative activity.

State activities include monitoring bills and preparation for the Governor's May Budget Revise.

District Strategic Plan Application

The District's Federal and State legislation program aligns with the District's mission of *working collaboratively to provide a reliable and sustainable water supply to support the changing needs of our region's people and environment*. By staying active and engaged in legislative issues, the District can establish a presence and build relationships with our Federal and State legislators which helps the District achieve its goal to *Establish San Bernardino Valley as an industry leader*,

recognized locally by the public and our peers for the leadership and positive impact we have within our region and the state.

Fiscal Impact

There is no fiscal impact related to this update.