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# Call to Order

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Board of Directors Workshop - Policy  
Thursday, February 10, 2022

*Chairperson – Director Botello*  
*Vice-Chair – Director Kielhold*

# Introductions

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*Following the introduction of Directors and District staff, participants may use this time to state their name and agency/affiliation in order to be included in the formal record of attendees.*

# Public Comment

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Any person may address the Board on matters within its jurisdiction.

- *Please use the chat feature on the Zoom toolbar or digitally raise your hand to let the moderator know you would like to make a comment.*



# Summary of Previous Meeting (Pg. 3)

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Board of Directors Workshop – Policy – January 13, 2022



# Discussion Item 4.2 (Pg. 32)

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**Kristeen Farlow, MPA** – Strategic Communications Manager

Discuss State and Federal Legislative Update

**Staff Recommendation**

Receive and file

# Federal Legislative Update

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- Outlook for Calendar Year 2023
- FY22 Appropriations Process
- Infrastructure Bill Implementation
- Build Back Better
- FY23 Appropriations Planning



# State Legislative Update

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- Legislation
- SB 890: DWR: Water Storage and Conveyance (Nielsen/ Borgeas)
- SB 230: Constituents of Emerging Concern (Portantino)
- Bill introduction deadline is 2/18





## State Legislative Update (cont.)

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### Governor Newsom's proposed State Budget \$86.4 billion

- \$750m for drought resilience
- \$1.2b over two years for investments in forest health and fire prevention

### Resignations, Term Limits, and the Redistricting Process

- 19-20 Assembly members retiring or already left
- Some seats won't be filled until after the origin deadline (May 27)

# Director Comments and Discussion

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**Paul Kielhold**  
President



**June Hayes**  
Vice President



**T. Milford  
Harrison**  
Treasurer



**Gil J. Botello**  
Director



**Susan Longville**  
Director

## Staff Recommendation

Receive and file

# Discussion Item 4.1 (Pg. 9)

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**Cindy Saks, CPA** – Deputy General Manager/Chief Financial Officer

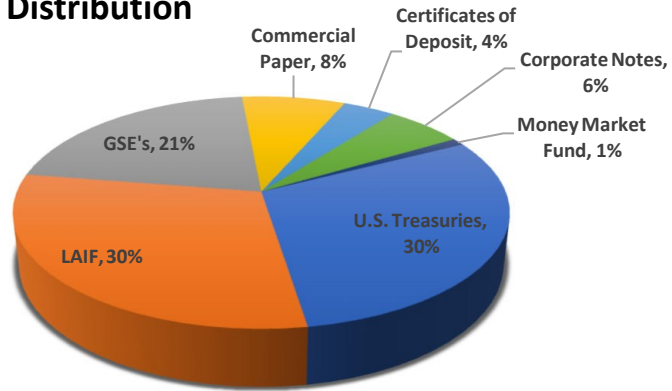
Quarterly Investment Portfolio Update with PFM Asset Management and Review of the District's Long Term Investment Strategy

## **Staff Recommendation**

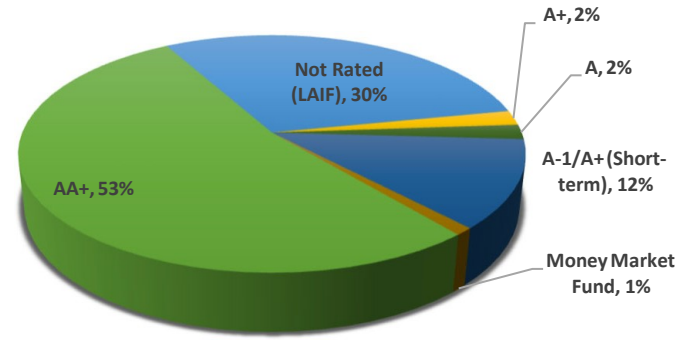
Receive and file the quarterly portfolio update report from PFM and provide direction to staff regarding the District's Long Term Investment Strategy

# SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT CURRENT LONG TERM INVESTMENT STRATEGY

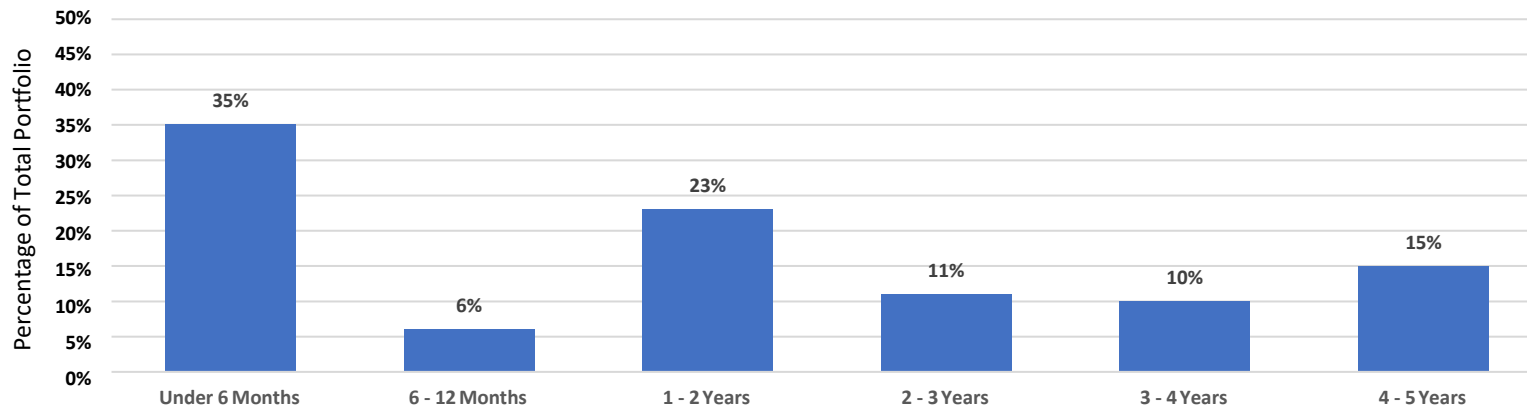
### Sector Distribution



### Credit Quality Distribution



### Maturity Distribution





# San Bernardino Valley Municipal Water District

## Investment Performance Review For the Quarter Ended December 31, 2021

### Client Management Team

Sarah Meacham, Managing Director  
James Sims, CFO, Managing Director  
Richard Babbe, CCM, Senior Managing Consultant

### PFM Asset Management LLC

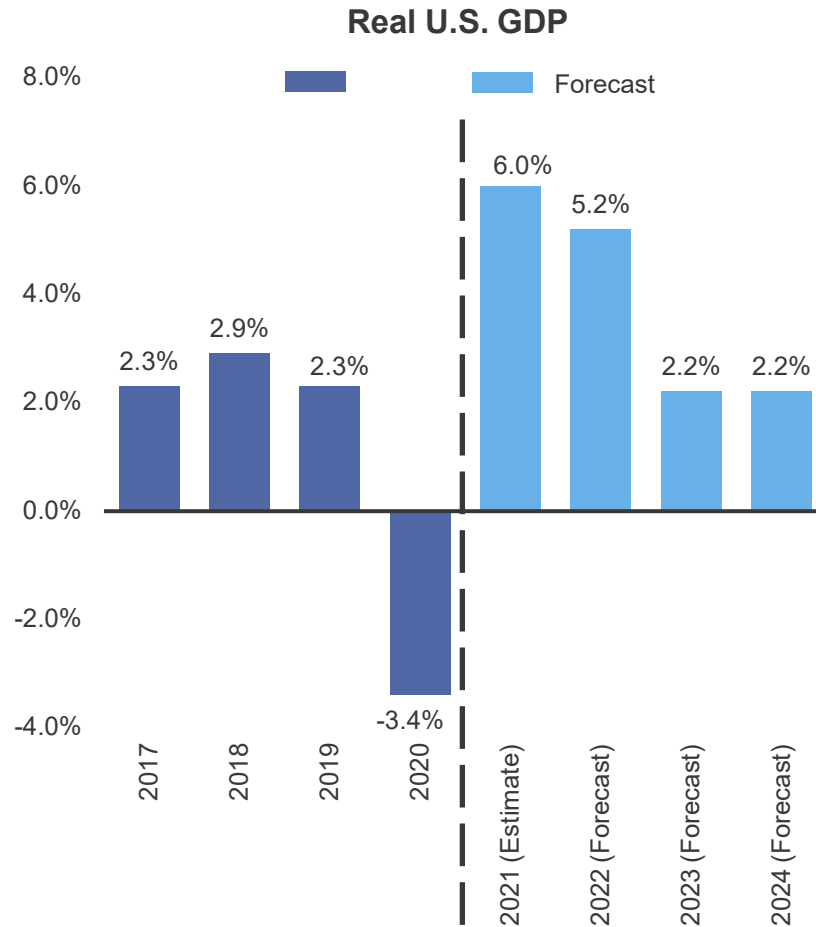
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717-232-2723

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# Market Summary

## U.S. GDP Rebounds from Pandemic



### Factors Driving Growth...

- ▶ Better-than-expected corporate profit margins fueling equity markets
- ▶ Unprecedented accommodative monetary policy and fiscal stimulus
- ▶ Access to COVID-19 vaccines and reduction of pandemic-era lockdowns
- ▶ Continued adaptation of all sectors of the economy to the challenging health situation

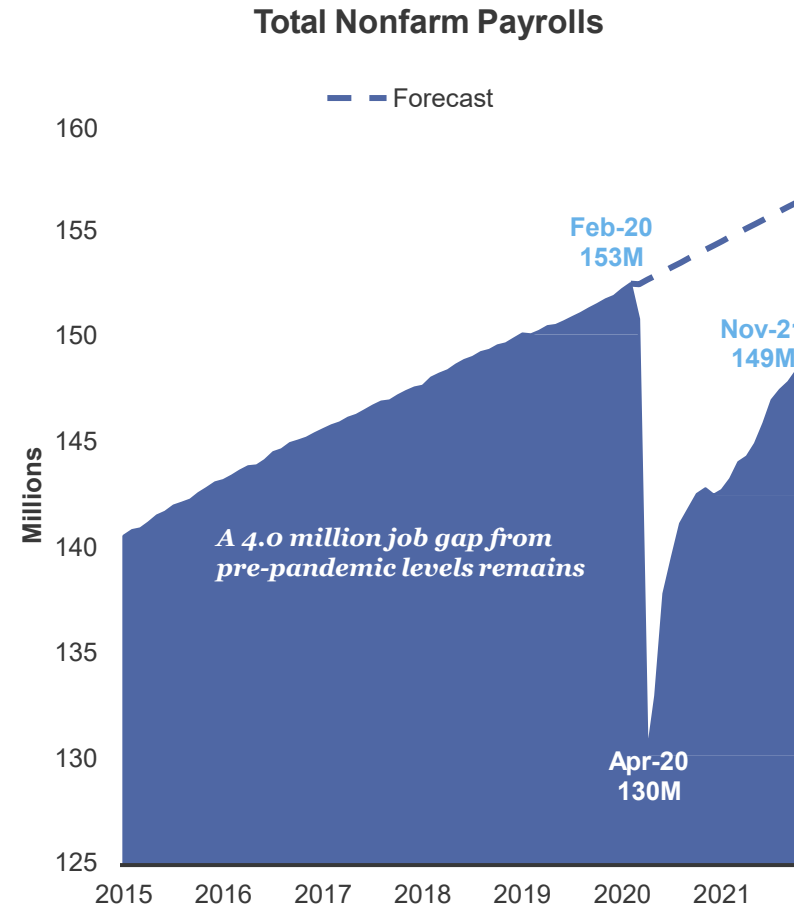
### Growth is Expected to Moderate...

- ▶ Persistent damage to supply chains continues to disrupt the production and distribution network
- ▶ Age-related impacts to labor force growth predating the pandemic
- ▶ Return to more normal household income and saving trends
- ▶ Normalizing fiscal and monetary policies

Source: International Monetary Fund, October 2021 World Economic Outlook

### Uneven Labor Market Recovery Post-Pandemic

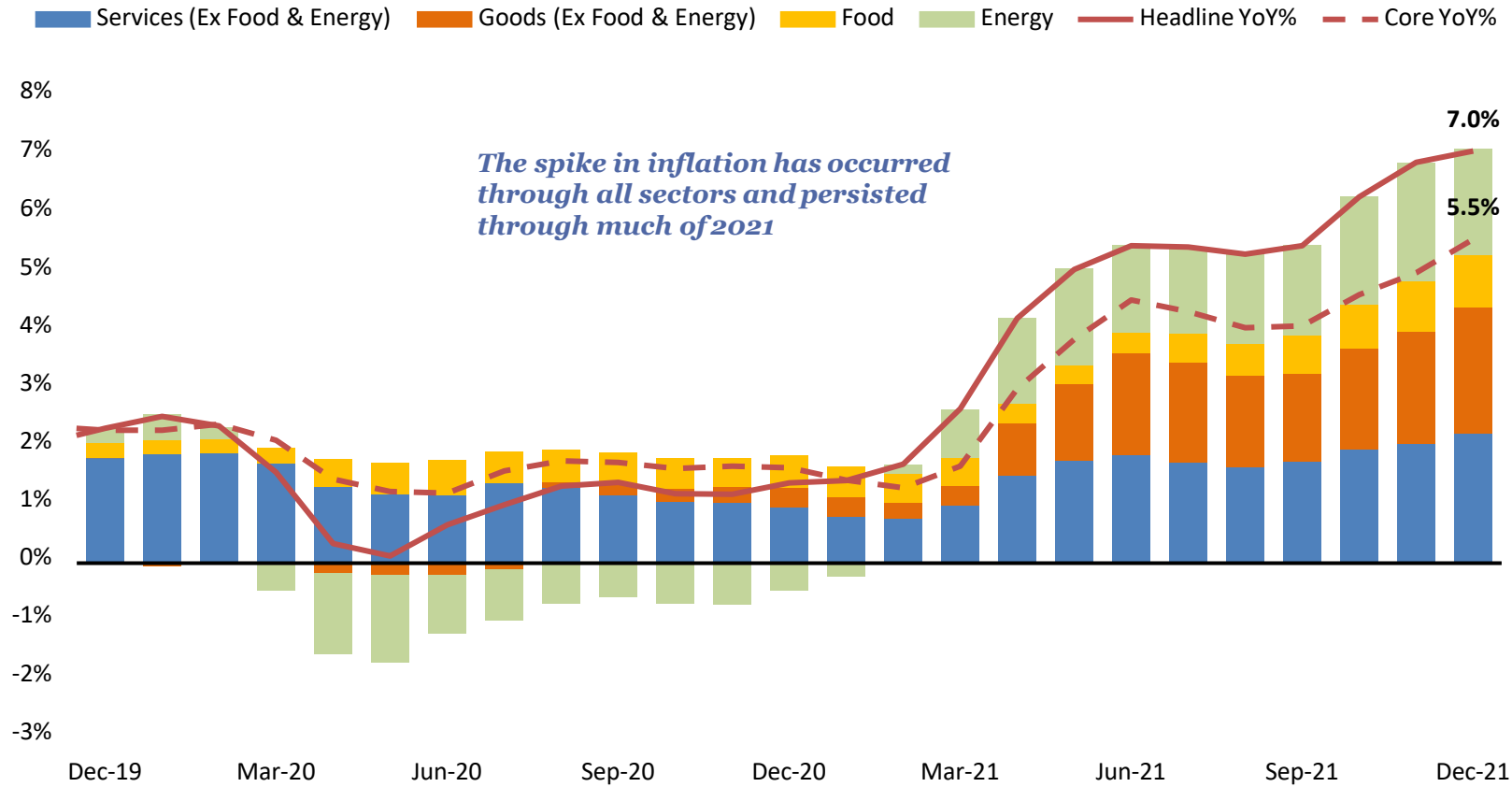
Economic Indicator	Pre-Pandemic	Pandemic Peak/Trough	Current
<b>Unemployment Rate</b>	3.6%	14.7%	3.9%
<b>Labor Force Participation Rate (Total)</b>	63.3%	60.2%	61.9%
<b>Labor Force Participation Rate (Prime Age)</b>	82.9%	79.9%	81.9%
<b>Average Hourly Earnings Growth</b>	2.9%	0.3%	4.7%
<b>Job Opening Level</b>	6.8 MM	4.6 MM	10.6 MM
<b>Turnover Rate</b>	3.7%	10.8%	4.2%
<b>Quits Rate</b>	2.3%	1.6%	3.0%
<b>Initial Jobless Claims</b>	218 K	6.1 MM	207 K
<b>Continuing Claims</b>	1.8 MM	23.1 MM	1.8 MM





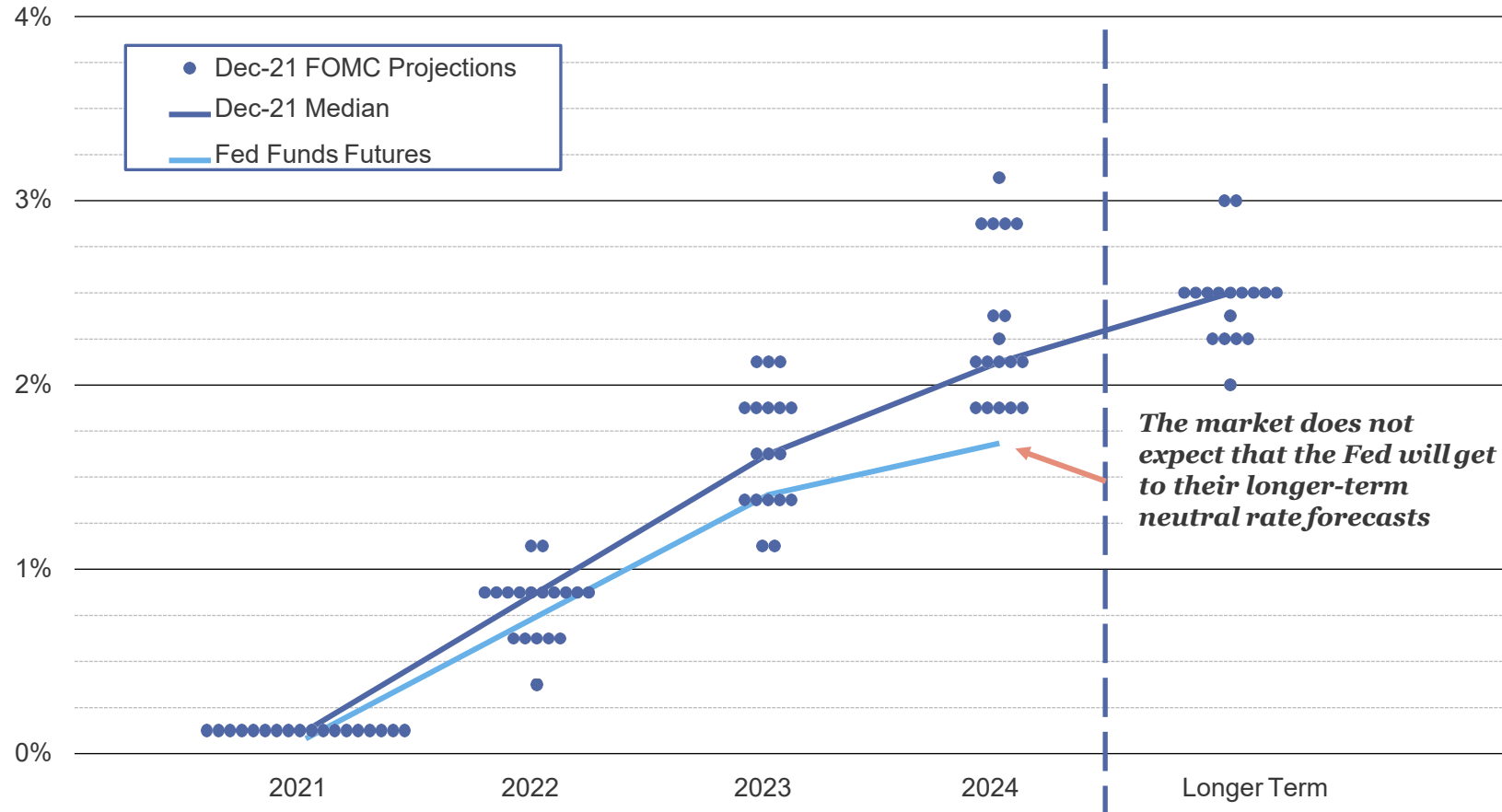
## Consumer Prices Rise to Four Decade High

Top-Line Contributions and CPI YoY

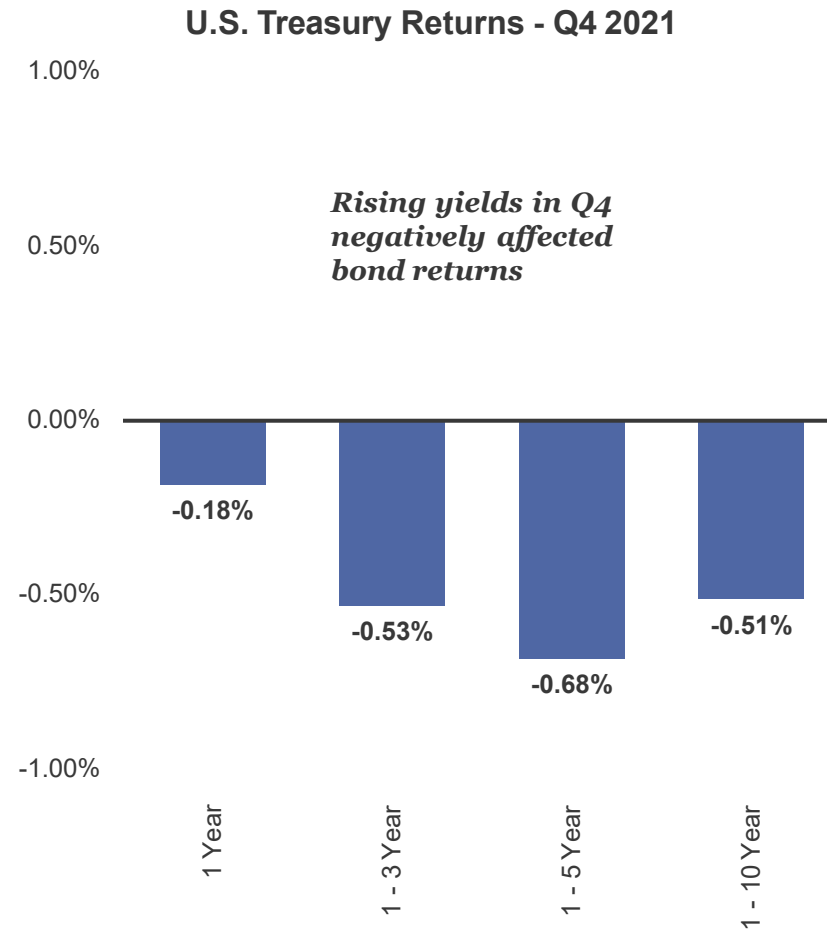
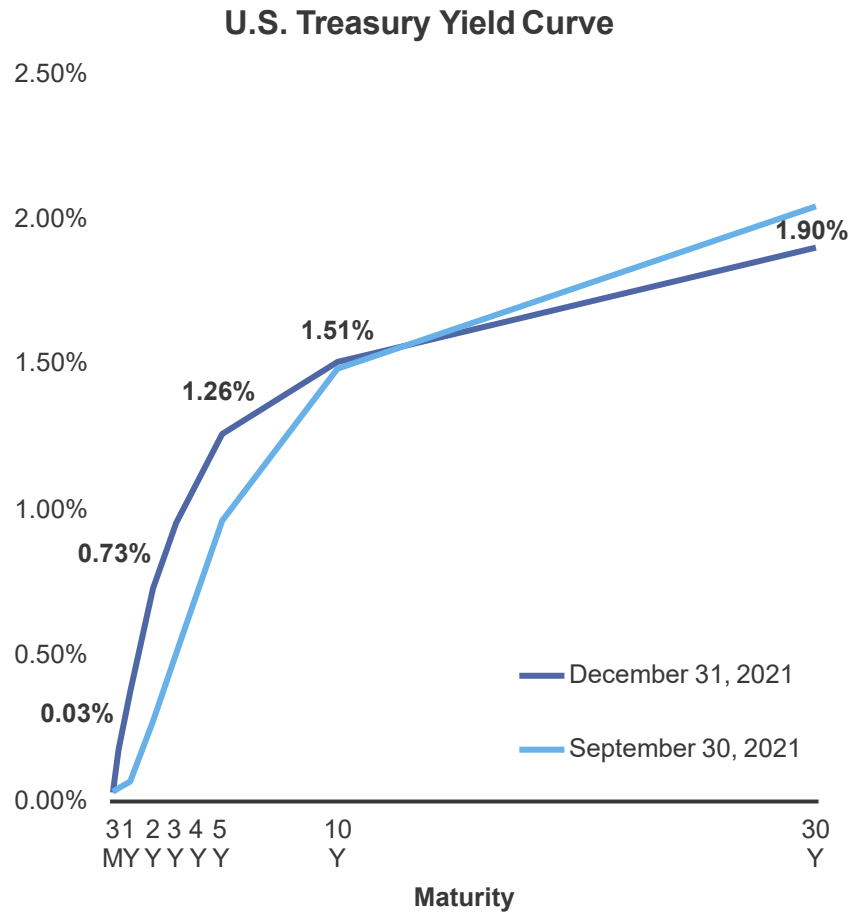


### FOMC Accelerates Asset Purchase Tapering and Prepares for Rate Lift-off

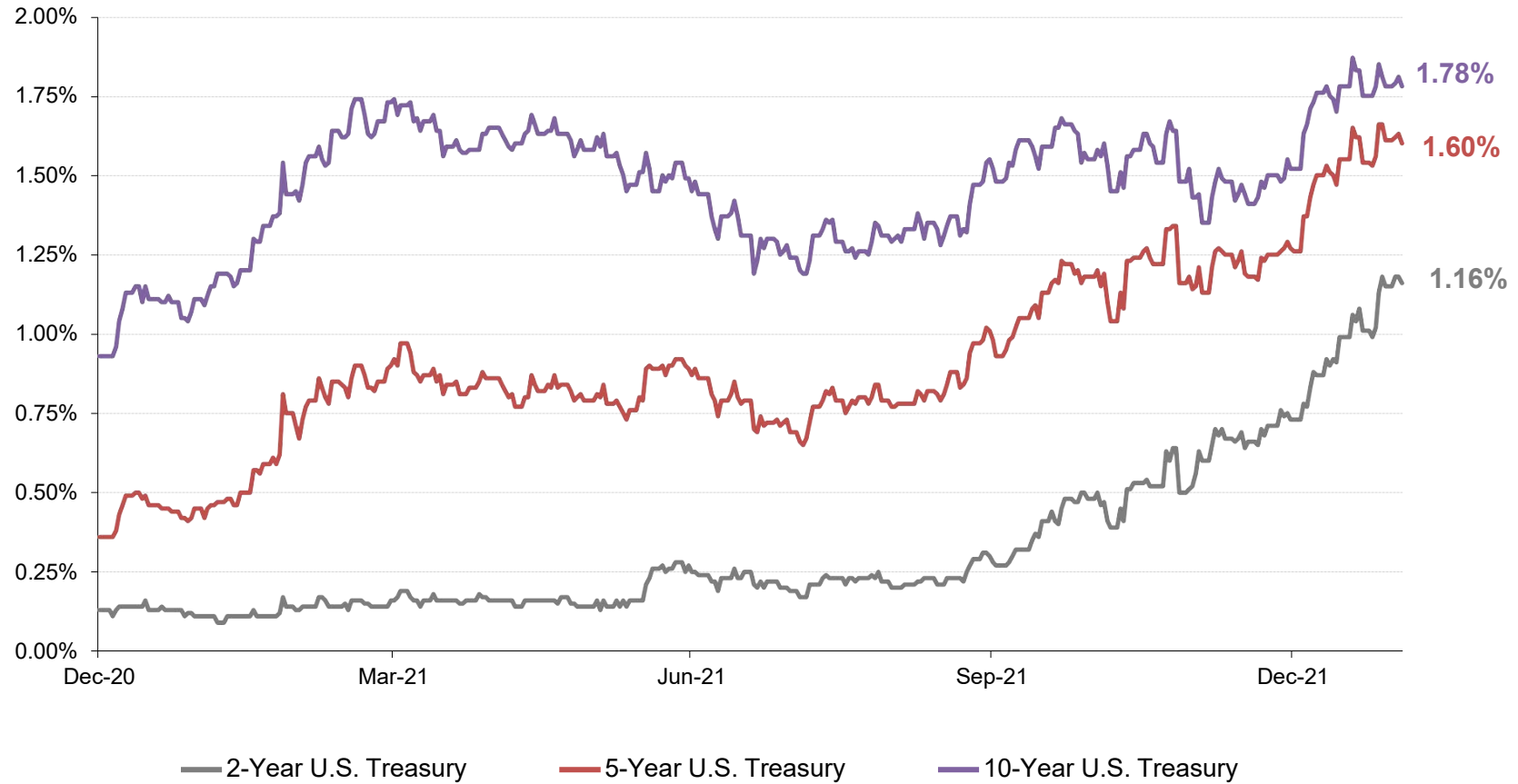
#### Fed Participants' Assessments of 'Appropriate' Monetary Policy



### Impact of Curve Flattening on Performance



### U.S. Treasury Yields December 31, 2020 – February 2, 2022



Source: Bloomberg, as of February 2, 2022.

# Portfolio Review

**Combined Portfolio – Composition: By Fund**

<b>Fund</b>	<b>September 30, 2021</b>	<b>December 31, 2021</b>
General Fund	\$143,128,727	\$138,609,875
State Water Contract Fund	\$397,223,608	\$410,408,189
Devils Canyon/Castaic Fund	\$4,790,874	\$4,593,945
<b>Total</b>	<b>\$545,138,209</b>	<b>\$553,612,009</b>

### Combined Portfolio - Sector Allocations

Security Type	Market Value as of September 30, 2021	% of Portfolio	Market Value as of December 31, 2021	% of Portfolio	Change vs. 6/30/21	Sector Limits
U.S. Treasury	\$241,420,684	44.4%	\$228,610,977	41.3%	-3.0%	100%
Federal Agency	\$76,015,442	14.0%	\$68,898,648	12.5%	-1.5%	100%
Municipal	\$11,292,903	2.1%	\$11,219,689	2.0%	-	30%
Negotiable CDs	\$16,545,797	3.0%	\$6,445,207	1.2%	-1.9%	30%
Corporate Notes	\$71,441,630	13.1%	\$69,793,467	12.6%	-0.5%	30%
<b>Securities Sub-Total</b>	<b>\$416,716,456</b>	<b>76.6%</b>	<b>\$384,967,988</b>	<b>69.6%</b>	<b>-6.9%</b>	
Accrued Interest	\$845,130		\$695,585			
<b>Securities Total</b>	<b>\$417,561,586</b>		<b>\$385,663,573</b>			
LAIF	\$74,487,463	13.7%	\$74,532,820	13.5%	-0.2%	\$75 Million
Money Market Fund	\$252,952	0.0%	\$71,581	0.0%	0.0%	20.0%
CAMP	\$52,836,208	9.7%	\$93,344,035	16.9%	7.2%	50.0%
<b>Total Liquidity</b>	<b>\$127,576,623</b>	<b>23.4%</b>	<b>\$167,948,436</b>	<b>30.4%</b>	<b>6.9%</b>	
<b>Total Investments</b>	<b>\$545,138,209</b>	<b>100.0%</b>	<b>\$553,612,008</b>	<b>100.0%</b>		

## Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch	Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
<b>U.S. Treasury</b>	<b>59.4%</b>		<b>Corporate</b>	<b>18.1%</b>	
UNITED STATES TREASURY	59.4%	AA / Aaa / AAA	APPLE INC	0.4%	AA / Aaa / NR
<b>Federal Agency</b>	<b>17.9%</b>		ASTRAZENECA PLC	0.5%	A / A / NR
FANNIE MAE	4.3%	AA / Aaa / AAA	BANK OF AMERICA CO	1.1%	A / A / AA
FREDDIE MAC	13.6%	AA / Aaa / AAA	BLACKROCK INC	0.4%	AA / Aa / NR
<b>Municipal</b>	<b>2.9%</b>		BMW FINANCIAL SERVICES NA LLC	0.2%	A / A / NR
CALIFORNIA DEPARTMENT OF WATER RESOURCES	0.2%	AAA / Aa / NR	BRISTOL-MYERS SQUIBB CO	0.4%	A / A / NR
CALIFORNIA EARTHQUAKE AUTHORITY	0.2%	NR / NR / A	CATERPILLAR INC	0.6%	A / A / A
CALIFORNIA STATE UNIVERSITY	0.2%	AA / Aa / NR	CHARLES SCHWAB	0.3%	A / A / A
FLORIDA STATE BOARD OF ADMIN FIN CORP	0.2%	AA / Aa / AA	CHEVRON CORPORATION	0.2%	AA / Aa / NR
LOS ANGELES COMMUNITY COLLEGE DISTRICT	0.2%	AA / Aaa / NR	CITIGROUP INC	0.7%	BBB / A / A
NEW JERSEY TURNPIKE AUTHORITY	0.2%	A / A / A	COMCAST CORP	0.2%	A / A / A
NEW YORK ST URBAN DEVELOPMENT CORP	0.9%	AA / NR / AA	DEERE & COMPANY	0.6%	A / A / A
SAN JUAN UNIFIED SCHOOL DISTRICT	0.1%	NR / Aa / NR	GOLDMAN SACHS GROUP INC	0.6%	BBB / A / A
STATE OF CONNECTICUT	0.1%	A / Aa / AA	HOME DEPOT INC	0.1%	A / A / A
STATE OF MARYLAND	0.5%	AAA / Aaa / AAA	HONEYWELL INTERNATIONAL	0.1%	A / A / A
STATE OF MISSISSIPPI	0.2%	AA / Aa / AA	JP MORGAN CHASE & CO	1.4%	A / A / AA
<b>Negotiable CD</b>	<b>1.7%</b>		MERCK & CO INC	0.5%	A / A / A
CREDIT SUISSE GROUP RK	0.7%	A / A / A	MORGAN STANLEY	0.7%	BBB / A / A
DNB ASA	0.9%	AA / Aa / NR	NATIONAL RURAL UTILITIES CO FINANCE CORP	0.5%	A / A / A
<b>Corporate</b>	<b>18.1%</b>		NESTLE SA	0.8%	AA / Aa / A
3M COMPANY	0.2%	A / A / NR	PACCAR FINANCIAL CORP	0.8%	A / A / NR
ADOBE INC	0.2%	A / A / NR	PEPSICO INC	0.2%	A / A / NR
AMAZON.COM INC	1.2%	AA / A / AA	PFIZER INC	0.1%	A / A / A
AMERICAN EXPRESS CO	0.7%	BBB / A / A	PNC FINANCIAL SERVICES GROUP	0.2%	A / A / A
AMERICAN HONDA FINANCE	0.3%	A / A / A	THE BANK OF NEW YORK MELLON CORPORATION	0.8%	A / A / AA

Ratings shown are calculated by assigning a numeral value to each security rating, then calculating a weighted average rating for each security type / issuer category using all available security ratings, excluding Not-Rated (NR) ratings. For security type / issuer categories where a rating from the applicable NRSRO is not available, a rating of NR is assigned. Excludes balances invested in money market funds.



## Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
<b>Corporate</b>	<b>18.1%</b>	
TOYOTA MOTOR CORP	1.3%	A / A / A
TRUIST FIN CORP	0.5%	A / A / A
UNILEVER PLC	0.4%	A / A / A
UNITEDHEALTH GROUP INC	0.3%	A / A / A
US BANCORP	0.2%	A / A / A
WAL-MART STORES INC	0.3%	AA / Aa / AA
<b>Total</b>	<b>100.0%</b>	

Ratings shown are calculated by assigning a numeral value to each security rating, then calculating a weighted average rating for each security type / issuer category using all available security ratings, excluding Not-Rated (NR) ratings. For security type / issuer categories where a rating from the applicable NRSRO is not available, a rating of NR is assigned. Excludes balances invested in money market funds.

## Certificate of Compliance

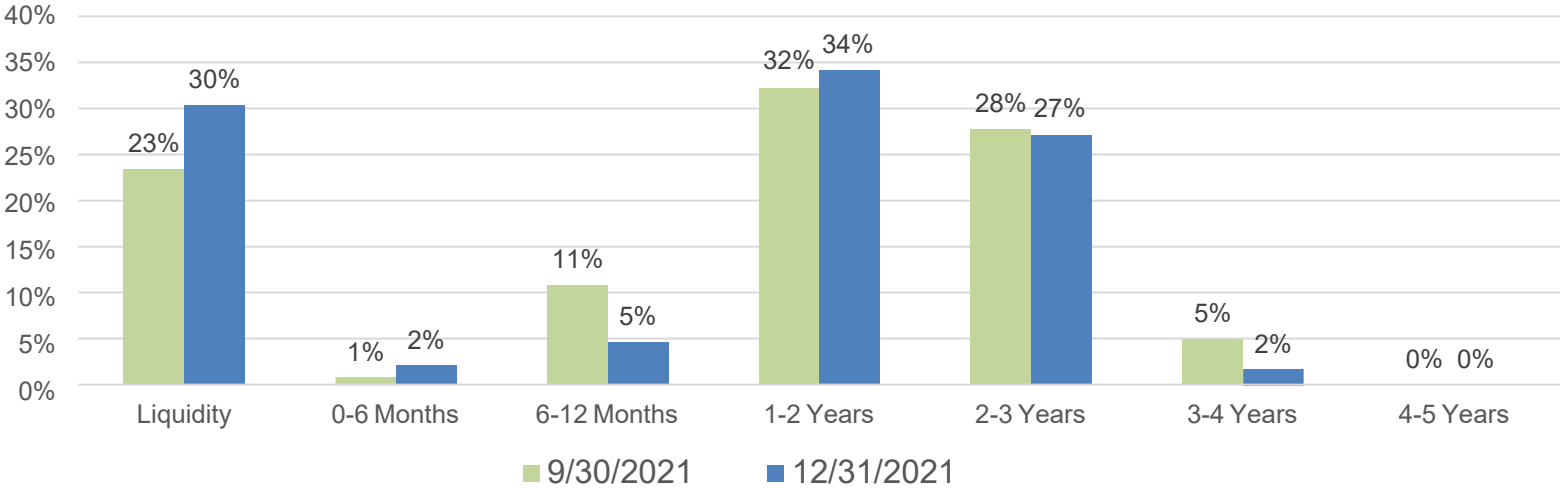
During the reporting period for the quarter ended December 31, 2021, the account(s) managed by PFM Asset Management ("PFMAM") were in compliance with the applicable investment policy and guidelines as furnished to PFMAM.

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

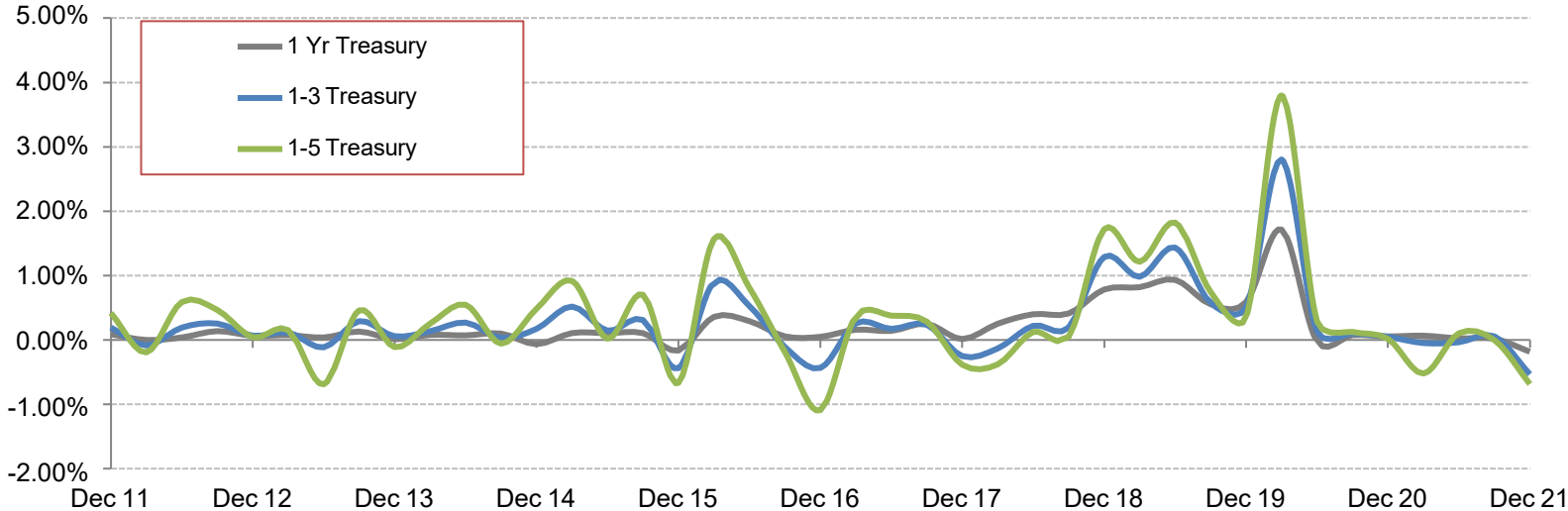
- The District maintains ample liquidity in the LAIF/CAMP.
- For the managed portfolio, we continue to emphasize maturities in the 1-3 year maturity range, consistent with the portfolio’s benchmark.



Weighted Average Maturity (Years)	September 30, 2021	December 31, 2021
Overall	1.5	1.3
Managed Portfolio	1.9	1.9

### Strategy Considerations - Duration

- Over time, longer duration portfolio's have historically provided higher returns but with greater return volatility on a period-by-period basis.

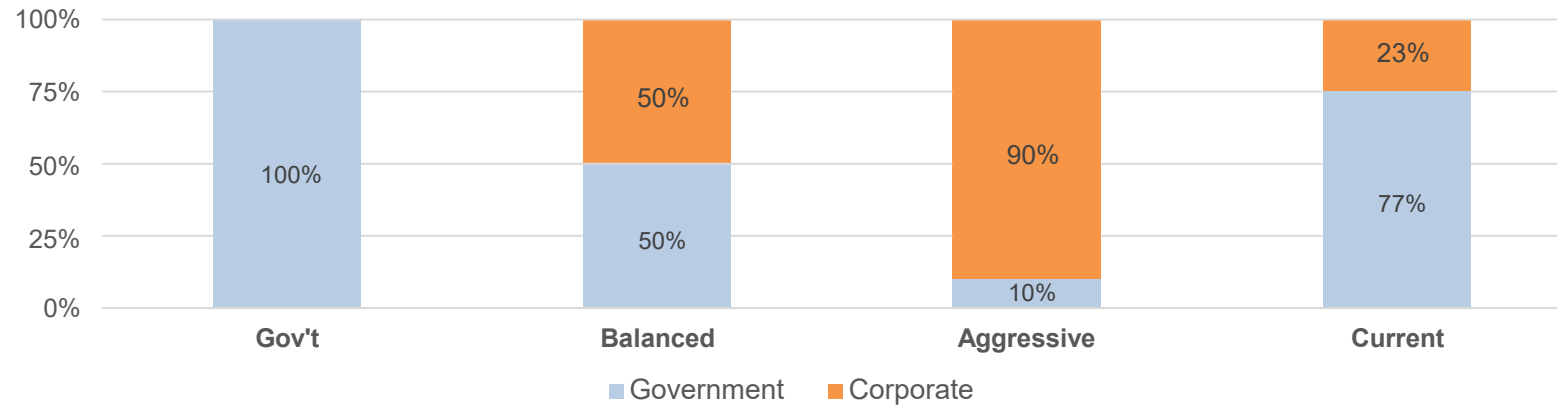


10 Years Ended December 31, 2021					
ICE BoAML Index	Duration (years)	Annualized Total Return	Cumulative Value of \$400 Million	Incremental Earnings	Quarters With Negative Return
1 Yr. Treasury	1.00	0.86%	\$435,976,127	-	5 out of 40
1-3 Treasury	1.88	1.09%	\$445,658,108	\$9,681,981	10 out of 40
1-5 Treasury	2.64	1.34%	\$457,038,769	\$21,062,642	12 out of 40

Source: ICE BoAML Indices: Bloomberg. Past performance is not indicative of future returns.

### Strategy Consideration - Credit

- For any given duration, a portfolio's average return can be increased by adding corporate allocation but will increase the portfolio's exposure to credit risk.



10 Years Ended December 31, 2021				
1-3 Year Indices	Duration (years)	Annualized Total Return	Cumulative Value of \$400 million	Incremental Difference
100% Government	1.88	1.09%	\$445,658,108	-
50% Gov't/50% Corp	1.86	1.61%	\$469,985,838	\$24,327,730
10% Gov't/90% Corp.	1.84	2.03%	\$489,448,022	\$43,789,914

Source: ICE BoAML Indices: Bloomberg. Past performance is not indicative of future returns.

### Managed Portfolio Total Return Performance

- Total return expresses annualized rate of return over a specified period and takes into account all changes in the portfolio, including market value changes, reinvestment rates, cash flows, and interest earned plus realized gains/losses.
- Interest rates for the quarter rose rapidly, as a result market values fell sharply resulting in negative total returns.

Periods Ending December 31, 2021					
			Annualized		
BofAML Indices	Duration (years)	Quarter	Past 12 Months	Past 3 Years	Since Inception
State Water Contract Fund	1.79	-0.49%	-0.39%	2.29%	1.45%
General Fund	1.80	-0.52%	-0.43%	2.26%	1.43%
ICE BofAML 1 Year UST Index (GC03)	0.91	-0.18%	-0.07%	1.55%	0.91%
ICE BofAML 1-3 Year UST Index (G1O2)	1.82	-0.53%	-0.55%	2.01%	1.13%
ICE BofAML 1-5 Year UST Index (GVQ0)	2.58	-0.68%	-1.10%	2.42%	1.37%

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.  
 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	Since Inception
Interest Earned <sup>2</sup>	\$815,284	\$3,986,343	\$18,658,935	\$29,607,660	\$40,461,018
Change in Market Value	(\$2,894,669)	(\$5,729,852)	\$4,959,239	\$2,094,665	\$67,318
<b>Total Dollar Return</b>	<b>(\$2,079,385)</b>	<b>(\$1,743,509)</b>	<b>\$23,618,174</b>	<b>\$31,702,325</b>	<b>\$40,528,336</b>

Accrual Basis Earnings	3 Months	1 Year	3 Years	5 Years	Since Inception
Interest Earned <sup>2</sup>	\$815,284	\$3,986,343	\$18,658,935	\$29,607,660	\$40,461,018
Change in Market Value	\$492,794	\$2,367,696	\$4,222,827	\$3,630,974	\$3,741,277
Realized Gains / (Losses) <sup>3</sup>	(\$121,133)	(\$229,278)	\$35,869	(\$382,726)	(\$2,211,339)
<b>Total Earnings</b>	<b>\$1,186,945</b>	<b>\$6,652,943</b>	<b>\$23,753,150</b>	<b>\$33,107,264</b>	<b>\$41,175,673</b>

1. Performance inception date is 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.

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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.

# Director Comments and Discussion

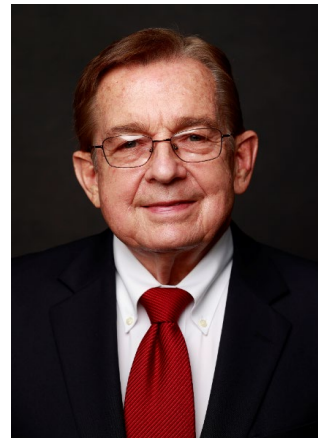
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**Paul Kielhold**  
President



**June Hayes**  
Vice President



**T. Milford  
Harrison**  
Treasurer



**Gil J. Botello**  
Director



**Susan Longville**  
Director

## Staff Recommendation

Receive and file the quarterly portfolio update report from PFM and provide direction to staff regarding the District's Long Term Investment Strategy

# Future Business

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# Adjournment

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