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Call to Order

Board of Directors Workshop - Policy
Thursday, May 12, 2022

Chairperson – Director Botello
Vice-Chair – Director Kielhold

Introductions

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

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)

Board of Directors Workshop – Policy – April 14, 2022



Discussion Item 4.1 (Pg. 10)

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

Quarterly Investment Portfolio Update with PFM Asset Management and Review of the District's Investment Policy

Staff Recommendation

Receive and file the quarterly portfolio update report from PFM and review the District's Investment Policy as required by California Government Code.



San Bernardino Valley Municipal Water District

Investment Performance Review For the Quarter Ended March 31, 2022

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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214-415-1699

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Market Update

Current Market Themes



- Commodity prices soared, especially energy
- Created significant geopolitical uncertainty
- Triggered market volatility



- A strong labor market
- Inflation at a 40-year high
- Depressed consumer confidence

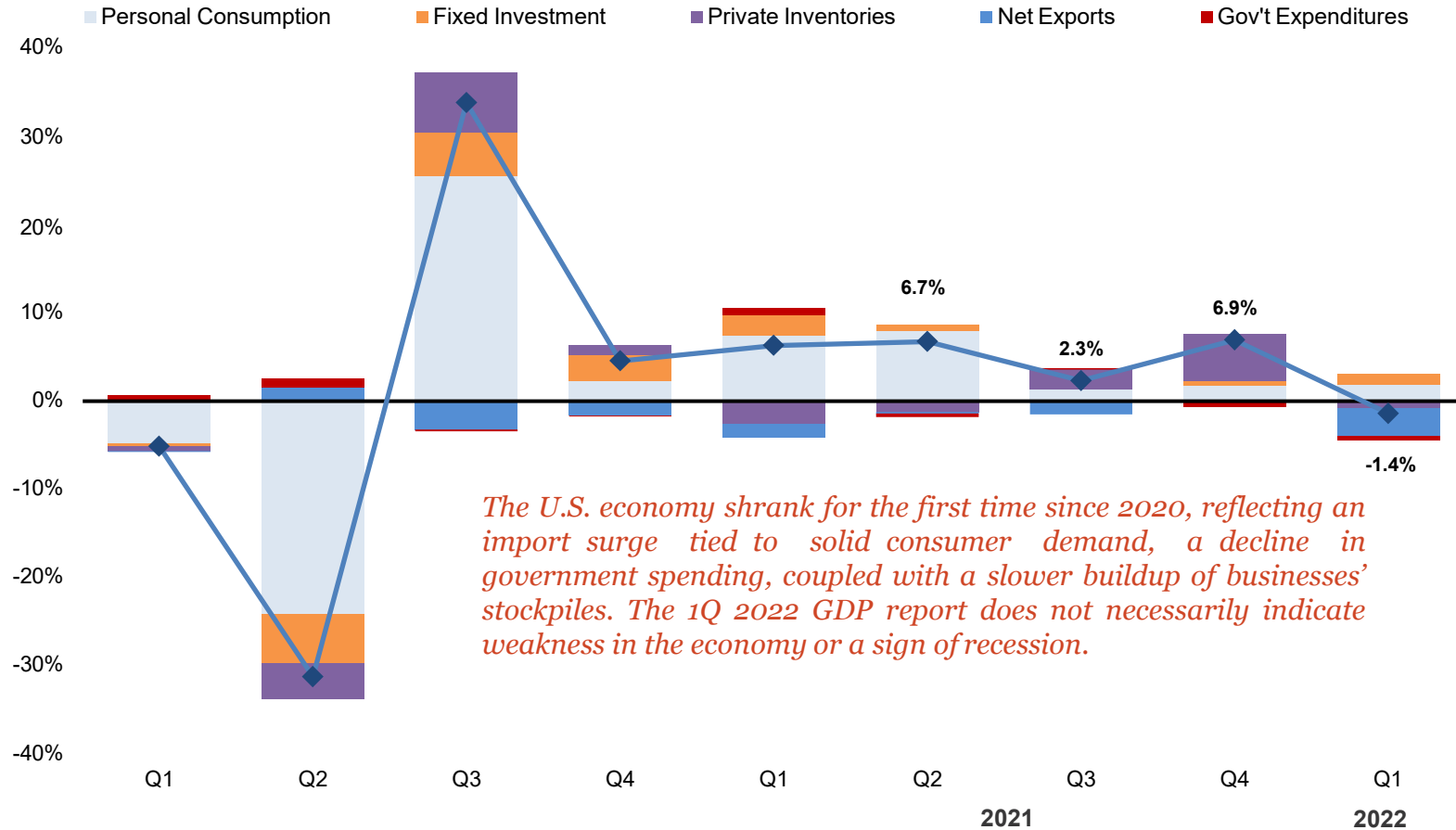


- Initiated the first of what will be many rate hikes in 2022
- Balance sheet reduction likely to start soon



- Yield on 2-year Treasury notes rose above the 10-year Treasury
- One early, but imperfect warning sign for a future recession

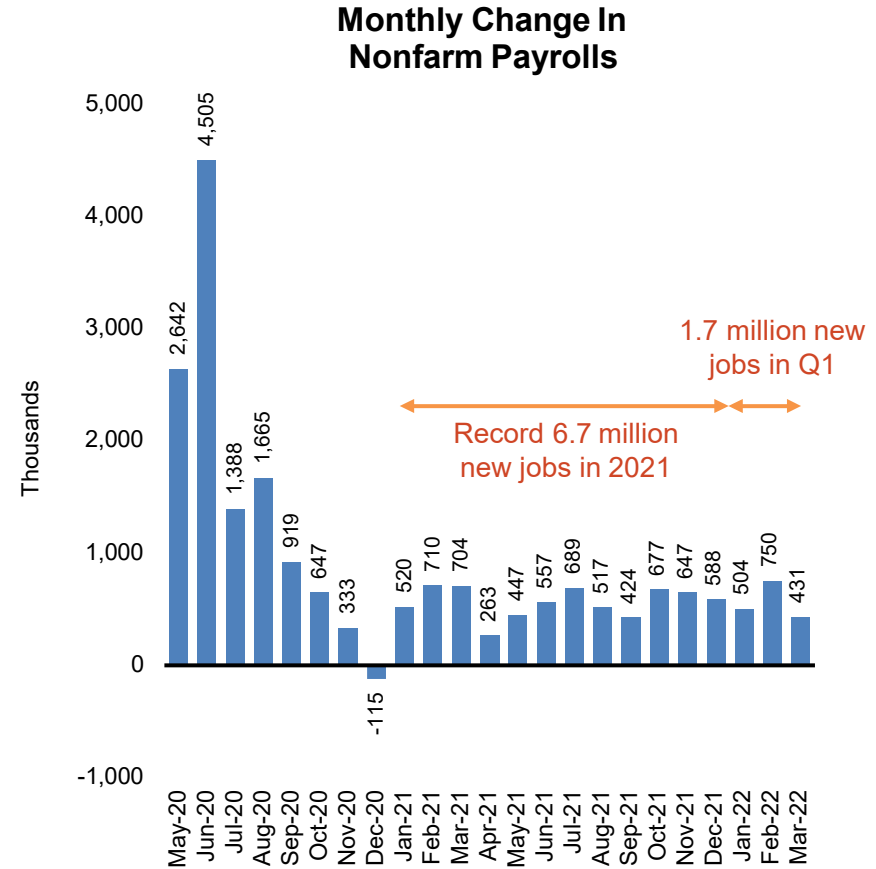
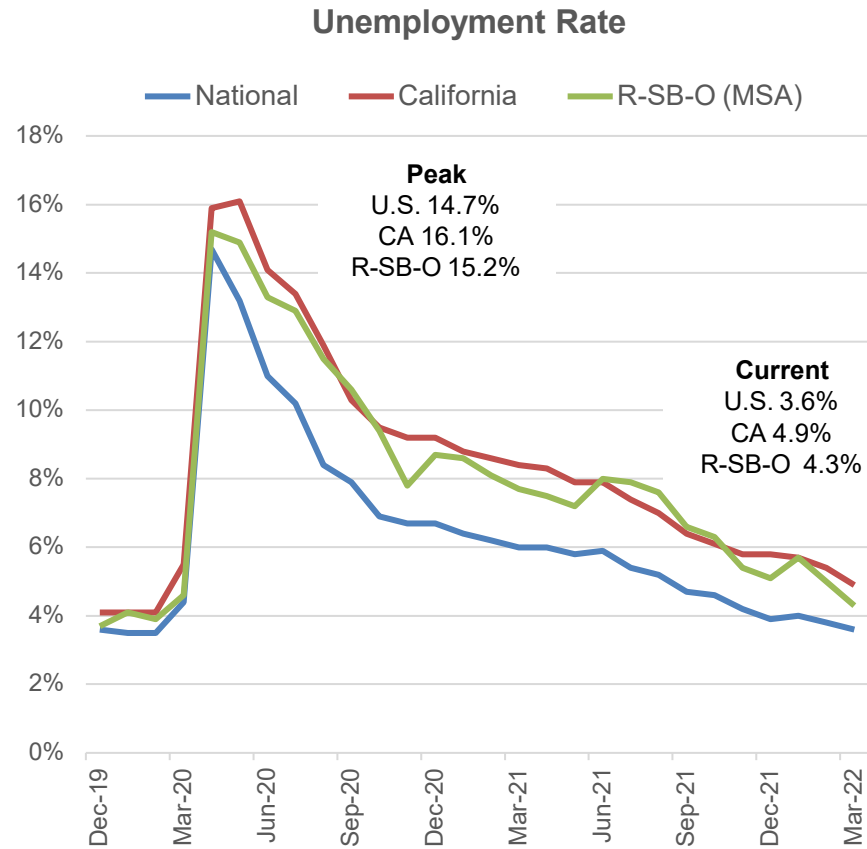
U.S. Real GDP Contracts in the First Quarter



The U.S. economy shrank for the first time since 2020, reflecting an import surge tied to solid consumer demand, a decline in government spending, coupled with a slower buildup of businesses' stockpiles. The 1Q 2022 GDP report does not necessarily indicate weakness in the economy or a sign of recession.

Source: Bureau of Economic Analysis.

U.S. Economy Added 431,000 Jobs in March; Unemployment Rate Falls to 3.6%



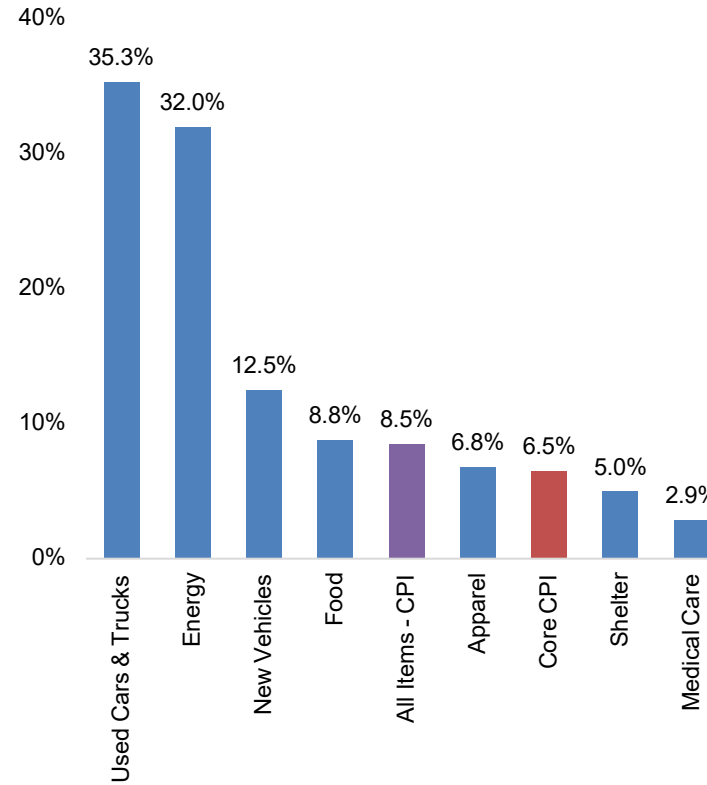
Source: U.S. Bureau of Labor Statistics. U.S. Data as of March 2022. California and Riverside-San Bernardino-Ontario (MSA) data as of February 2022.

Inflation at a 40-year High

Consumer Price Index
% Change YoY



Key Consumer Price Index Components
% Change YoY



Other Inflation Measures

Core CPI: 6.5%

R-SB-O CPI: 10.0%

R-SB-O Core CPI: 6.9%

PCE: 6.4%

Core PCE: 5.4%

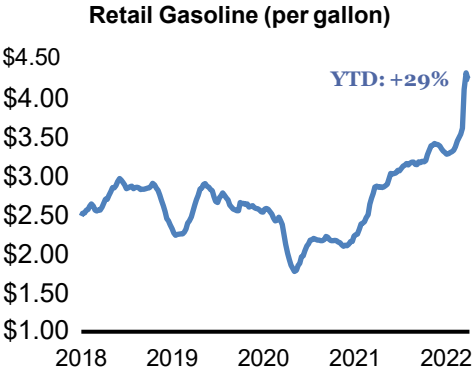
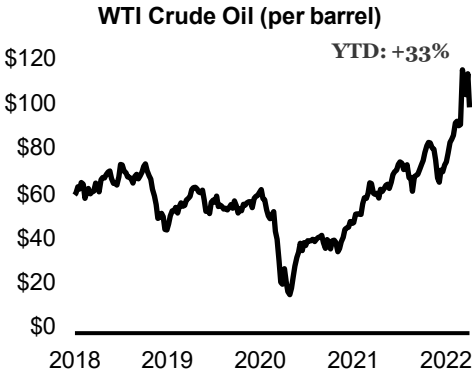
PPI: 11.2%

CA CCCI: 22.5%

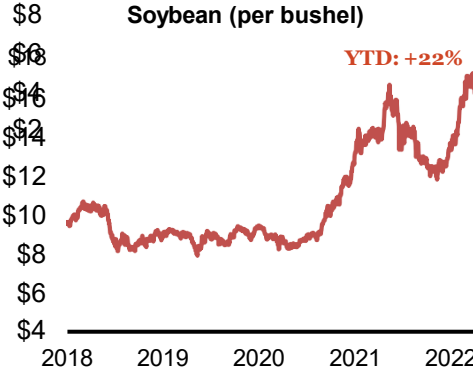
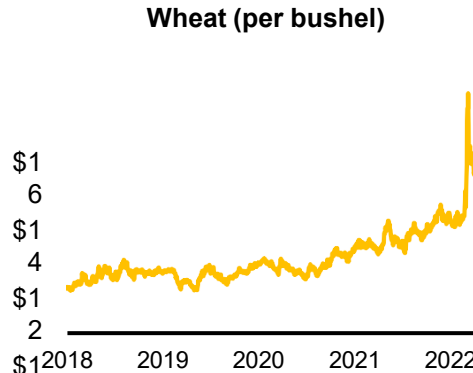
Source: CPI (consumer Price Index) and PPI (Producer Price Index) BLS.gov, data as of March 2022. PCE (Person Consumption Expenditures) bea.gov as of February 2022. CA CCCI (CA Department of Governmental Services Construction Cost) dgs.ca.gov as of March 2022.

Invasion Has Put Additional Pressure on Supply Chains and Commodity Prices

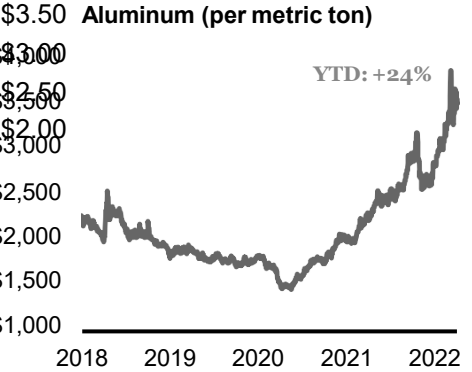
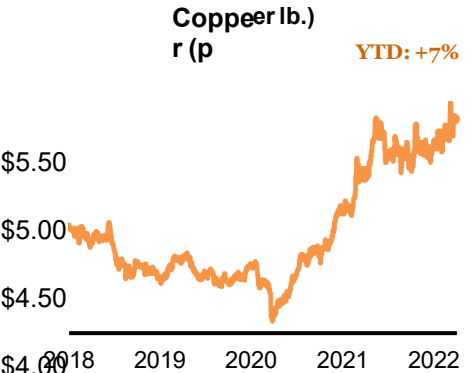
Energy



Agriculture



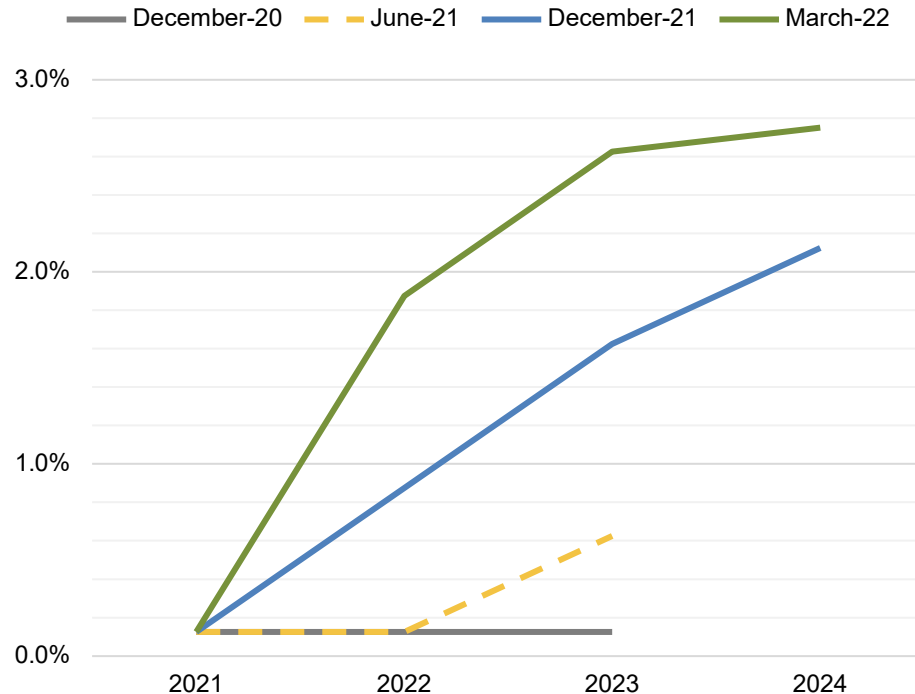
Industrial Metals



Source: Bloomberg, as of 3/31/2022.

Federal Reserve Pivots on Monetary Policy

Fed Participants' Assessments of 'Appropriate' Monetary Policy



December 2020: With Inflation running persistently under its goal, the median assessment sees no rate hikes through 2023.

2-Year U.S. Treasury: 0.13%

June 2021: Inflation up but largely due to transitory factors. Widening dispersion between Fed participant's views on monetary policy as economy improves; more officials indicate rate-lift off is expected by end of 2023.

2-Year U.S. Treasury: 0.21%

December 2021: Inflation has exceeded the target range for some time; therefore, the Fed expects to maintain the target range until maximum employment is reached. The Fed announces an accelerated tapering of asset purchases; the median assessment is for three rate hikes in 2022.

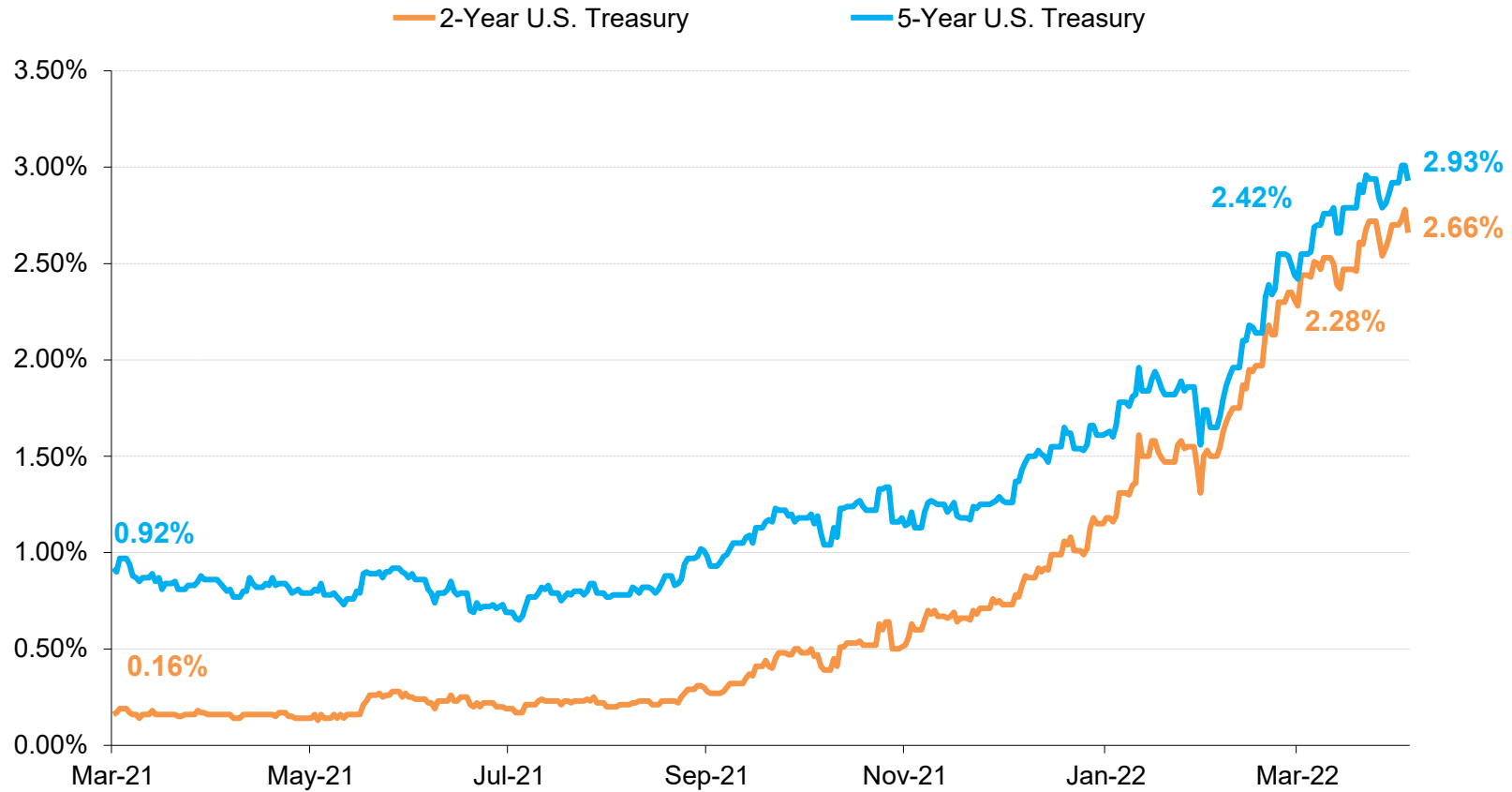
2-Year U.S. Treasury: 0.69%

March 2022: Indicators of economic activity continued to strengthen; inflation remains elevated; the Fed executed its first rate hike; the median forecast is for a total of seven rate hikes during 2022.

2-Year U.S. Treasury: 1.95%

Source: Federal Reserve and Bloomberg, as of 3/31/22. Lines represent the median assessment based on each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end for each meeting.

U.S. Treasury Yields March 31, 2021 – May 4, 2022



Source: Bloomberg, as of May 4, 2022

Portfolio Review

Combined Portfolio – Composition: By Fund

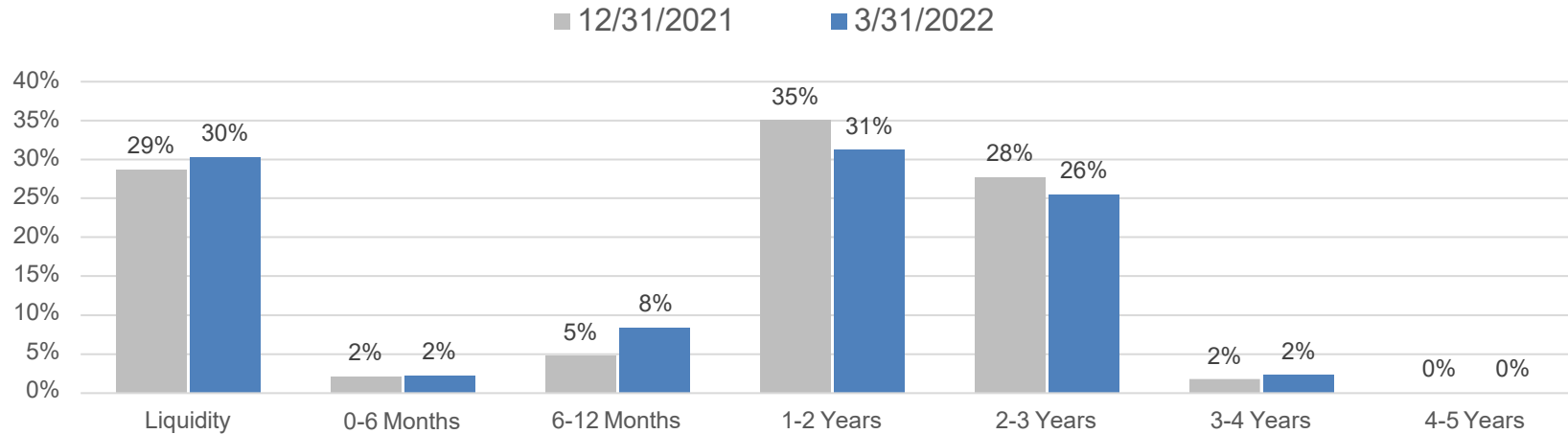
Fund	December 31, 2021	March 31, 2022
General Fund	\$138,609,875	\$85,034,145
State Water Contract Fund	\$410,408,189	\$423,014,371
Devils Canyon/Castaic Fund	\$4,593,945	\$4,596,612
Total	\$553,612,008	\$512,645,128

Combined Portfolio - Sector Allocations

Security Type	Market Value as of December 31, 2021	% of Portfolio	Market Value as of March 31, 2022	% of Portfolio	Change vs. 12/31/21	Sector Limits
U.S. Treasury	\$228,610,977	41.3%	\$196,200,179	38.3%	-3.0%	100%
Federal Agency	\$68,898,648	12.5%	\$67,692,077	13.2%	0.8%	100%
Municipal	\$11,219,689	2.0%	\$10,944,605	2.1%	0.1%	30%
Negotiable CDs	\$6,445,207	1.2%	\$6,363,707	1.2%	0.1%	30%
Corporate Notes	\$69,793,467	12.6%	\$75,654,033	14.8%	2.2%	30%
Securities Sub-Total	\$384,967,988	69.6%	\$356,854,600	69.7%		
Accrued Interest	\$695,585		\$674,244			
Securities Total	\$385,663,573		\$357,528,845			
LAIF	\$74,532,820	13.5%	\$74,575,729	14.6%	1.1%	\$75 Million
Money Market Fund	\$71,581	0.0%	\$171,281	0.0%	0.0%	20.0%
CAMP	\$93,344,035	16.9%	\$80,369,273	15.7%	-1.2%	50.0%
Total Liquidity	\$167,948,436	30.4%	\$155,116,283	30.3%		
Total Investments	\$553,612,008	100.0%	\$512,645,128	100.0%		

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)	December 31, 2021	March 31, 2022
Overall	1.3	1.2
Managed Portfolio	1.9	1.8

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 March 31, 2022					
			Annualized		
ICE BofAML Indices	Duration (years)	Quarter	Past 12 Months	Past 3 Years	Since Inception
State Water Contract Fund	1.79	-2.24%	-2.65%	1.10%	1.16%
General Fund	1.80	-2.15%	-2.51%	1.14%	1.19%
ICE BofAML 1 Year UST Index (GC03)	0.91	-0.80%	-0.94%	1.00%	0.80%
ICE BofAML 1-3 Year UST Index (G1O2)	1.82	-2.34%	-2.84%	0.88%	0.86%
ICE BofAML 1-5 Year UST Index (GVQ0)	2.58	-3.16%	-3.72%	0.92%	1.00%

ICE BofAML Indices provided by Bloomberg Financial Markets.

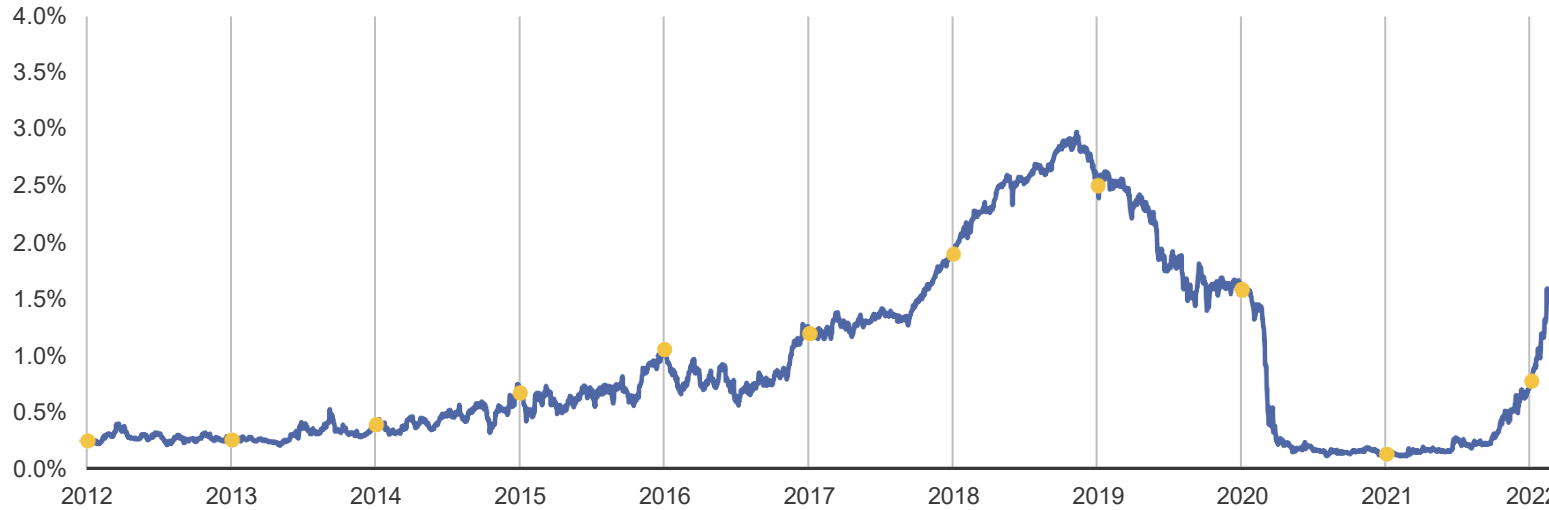
The District's portfolios are not managed on a total return basis, so the indices are shown for information only. Performance on trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).

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

Total Return Performance Has Historically Suffered as the Fed Raised Rates

2-Year Treasury Yield



Annual Returns of the ICE BofAML 1-3 Year Treasury Index

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD
0.43%	0.36%	0.62%	0.54%	0.89%	0.42%	1.58%	3.55%	3.10%	-0.56%	-2.34%

Source (graph): Bloomberg, data as of 3/31/2022. Source (table): ICE BofAML Indices, data as of 3/31/2022.

Combined Portfolio - Market Value and Accrual Basis Earnings

Market Value Earnings	3 Months	1 Year	3 Years	5 Years	Since Inception
Interest Earned ²	\$709,289	\$3,565,721	\$17,593,933	\$29,176,888	\$41,170,308
Change in Market Value	(\$8,963,845)	(\$13,491,122)	(\$6,076,536)	(\$6,934,940)	(\$8,896,529)
Total Dollar Return	(\$8,254,556)	(\$9,925,401)	\$11,517,397	\$22,241,948	\$32,273,779

Accrual Basis Earnings	3 Months	1 Year	3 Years	5 Years	Since Inception
Interest Earned ²	\$709,289	\$3,565,721	\$17,593,933	\$29,176,888	\$41,170,308
Change in Market Value	(\$132,906)	\$1,419,374	\$5,028,864	\$3,964,924	\$4,101,165
Realized Gains / (Losses) ³	(\$107,550)	(\$437,694)	(\$246,353)	(\$416,012)	(\$2,440,023)
Total Earnings	\$468,833	\$4,547,401	\$22,376,444	\$32,725,800	\$42,831,450

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



March 15, 2022

Memorandum

To: Cindy Saks, C.P.A., Chief Financial Officer - Deputy General Manager
San Bernardino Valley Municipal Water District

From: Sarah Meacham, Managing Director
Richard Babbe, CCM, Senior Managing Consultant
PFM Asset Management LLC

RE: Annual Investment Policy Review

At your request, we reviewed the San Bernardino Valley Municipal Water District's (the "District") Investment Policy (the "Policy"), as part of the District's annual review process. As written, the Policy is in compliance with all applicable California Government Code (the "Code") sections regulating the investment of public funds. Furthermore, there have been no changes to the relevant Code sections, effective January 1, 2022, that would require any changes the District's Policy. Therefore, we are not recommending any changes to the Policy at this time.

Please contact us if you have any questions.

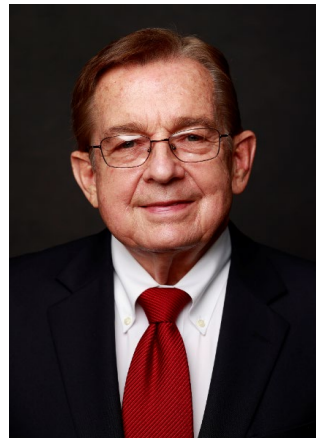
Director Comments and Discussion



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 review the District's Investment Policy as required by California Government Code.

Discussion Item 4.2 (Pg. 44)

Heather Dyer, MS, MBA – Chief Executive Officer/General Manager

Update on IE Works Program Participation

Staff Recommendation

Staff recommends the Board of Directors discuss and consider the District's appropriate level of participation in the regional IE Works - the Inland Empire Career Pathways Program. If the Board wishes to participate in the governance structure of the organization, staff recommends the Board President appoint one of our Directors to the IE Works Board.



IE Works Program

- ❑ \$1.1 million grant to develop a local workforce program for water and wastewater agencies
- ❑ A career pathway collaborative
- ❑ A partnership with San Bernardino Valley College
- ❑ Goal: to increase the qualified candidates to fill future job vacancies in the water and wastewater industries

Valley District Involvement

- ❑ The District signed onto IE Works as a Charter Member in 2021
- ❑ Staff participation in meetings and program development
- ❑ Governance Structure and Bylaws

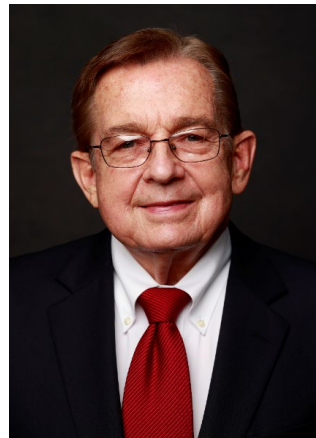
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Staff Recommendation

Staff recommends the Board of Directors discuss and consider the District's appropriate level of participation in the regional IE Works - the Inland Empire Career Pathways Program. If the Board wishes to participate in the governance structure of the organization, staff recommends the Board President appoint one of our Directors to the IE Works Board.

Reports Item 5.1 (Pg. 71)

State and Federal Legislative Report

Future Business



Adjournment
