Finance, Affordability, Asset Management, and Efficiency Committee

Approve Metropolitan's Statement of Investment Policy for fiscal year 2026/27, delegate authority to the Treasurer to invest Metropolitan's funds for fiscal year 2026/27

Item 7-6
June 9, 2026

Presented by: Sam Smalls

Item 7-6

Statement of Investment Policy and Authority to Invest

Subject

Approve Metropolitan's Statement of Investment Policy for fiscal year 2026/27, delegate authority to the Treasurer to invest Metropolitan's funds for fiscal year 2026/27

Purpose

Approve the FY2026/27 Investment Policy and delegate authority to the Treasurer to invest Metropolitan’s funds for FY2026/27

Next Steps

Manage compliance with Metropolitan’s Investment Policy

Investment Policy and Authority to Invest

Section 5114 of Metropolitan's Administrative Code requires the Treasurer to submit a Statement of Investment Policy to the Board for approval for the following fiscal year.

Sections 53600 et seq. of the California Government Code expressly grant the authority to the Board to invest public funds and that authority may be delegated to the Treasurer for a one-year period.

Statement of Investment Policy – Change

	FY2025/26	FY2026/27	Rationale
§X.	The District is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, the investments listed below are authorized. …Under the provisions of California Government Code Sections 53601.6, the District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, mortgage-derived, interest-only strips or any investment that may result in a zero interest accrual if held to maturity, except as authorized by Code Section 53601.6.	The District is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, the investments listed below are authorized. …Under the provisions of California Government Code Sections 53601.6, the District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, mortgage-derived, interest-only strips or any investment that may result in a zero interest accrual if held to maturity, except as authorized by Code Section 53601.6. Per Code Section 53601.6, authorization to invest in a security that may result in zero interest accrual, as described by Code Section 53601.6, will expire on January 1, 2031.	To align the Policy's requirements with the current Code language.

Statement of Investment Policy –Change

	FY2025/26	FY2026/27	Rationale
§X.4	Maximum maturity: Two hundred seventy (270) days	Maximum maturity: Three hundred ninety-seven (397) days	To align the Policy's requirements with the current Code language.
§X.10	Maximum maturity: Five (5) years	Maximum maturity: Five (5) years, except as otherwise permitted by this Policy	To clarify that Municipal Bonds and Notes can be invested for more than five years.
§XIII	The final maturity of any investment in the portfolios shall not exceed five (5) years with certain exceptions: The Treasurer is authorized to invest special trust funds in investment with a term to maximum maturity in excess of five years. These funds include, but are not limited to, the Water Revenue Bond Reserve Funds, Escrow Funds, Debt Service Funds, the Iron Mountain Landfill Closure/Post-closure Maintenance Trust Fund, and the Endowment Fund. The core portfolio may hold United States Treasury and Federal Agency securities with maturities in excess of five years.	The final maturity of any investment in the portfolios shall not exceed five (5) years with certain exceptions: The Treasurer is authorized to invest certain securities (US Treasury obligations, Federal Agency obligations and Municipal bonds and notes) with a term to maximum maturity in excess of five years in core or endowment portfolios. In addition, the Treasurer may invest non-operating funds for more than five years, including, but not limited to, the Water Revenue Bond Reserve Funds, Escrow Funds, and Debt Service Funds.	To clarify which funds may be invested for more than five years.

Statement of Investment Policy –Change

	FY2025/26	FY2026/27	Rationale
§XIV	The investment portfolio is divided into liquidity, core, and endowment fund portfolios. The Policy's duration limits only apply to the liquidity and core portfolios. The duration of the liquidity portfolio is limited to the duration of the benchmark index plus or minus 0.5 years. The duration of the core portfolio will be limited to the duration of the benchmark index plus or minus 1.5 years. The appropriate benchmark indices will be set by the Treasurer and reported to the Board in the Monthly Treasurer's Report.	The investment portfolio is divided into liquidity, core, and endowment portfolios. The Policy's duration limits apply to each portfolio, as detailed further in this section. The duration of the liquidity portfolio is limited to the duration of its benchmark index plus or minus 0.5 years. The duration of the core and endowment portfolios will be limited to the duration of their benchmark indices plus or minus 1.5 years. The appropriate benchmark indices will be set by the Treasurer and reported to the Board in the Monthly Treasurer's Report.	To add duration limits to the endowment portfolio, similar to the core portfolio.

Statement of Investment Policy –Change

	FY2025/26	FY2026/27	Rationale
Summary Table – Notes	1. The Treasurer is authorized to invest special trust funds in investment with a term to maximum maturity in excess of five years. These funds include, but are not limited to, the Water Revenue Bond Reserve Funds, Escrow Funds, Debt Service Funds, the Iron Mountain Landfill Closure/Post-closure Maintenance Trust Fund, and the Lake Mathews Multi-Species Reserve Trust Fund. The core portfolio may be invested in United States Treasury and Federal Agency securities with maturities in excess of five years.	1. The Treasurer is authorized to invest certain securities with a term to maximum maturity in excess of five years in the core and endowment portfolios. In addition, the Treasurer may invest non-operating funds for more than five years, including, but not limited to, the Water Revenue Bond Reserve Funds, Escrow Funds, and Debt Service Funds. [Added] 3. Per the passage of Senate Bill 595, the maximum percent of holdings will revert back to 25% effective January 1, 2031.	To clarify which funds may be invested for more than five years, and to align the Policy's requirements with the current Code language.

Options for Considerations

Option #1:

Approve the Statement of Investment Policy for fiscal year 2026/27; and

Delegate authority to the Treasurer to invest Metropolitan‘s funds for fiscal year 2026/27.

Option #2:

Do not approve the Statement of Investment Policy for fiscal year 2026/27 and do not delegate authority to the Treasurer to invest Metropolitan’s funds for fiscal year 2026/27.

Staff Recommendation

Option #1

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

1928