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**AZ WATER ASSOCIATION
RESERVE AND SCHOLARSHIP FUNDS
Investment Policy Guidelines
January, 2016**

I. Introduction and Purpose

The purpose of these guidelines is to establish a framework to use for the prudent investment of the AZ Water Association (AZ Water) assets in order to meet the Association's financial stability needs. In the process of identifying the investment strategies to be used, these guidelines provide stability in the management of the portfolio. This policy driven approach reduces the Board's propensity to act impulsively during volatile markets. The policy furthermore provides parameters for the portfolio by providing guidelines for selecting appropriate investments and classes of assets. It is recognized that from time to time the Board of Directors' attitudes, expectations, and objectives may change. Therefore, these guidelines are intended to be used as a "guide" rather than a rigid statement of policy from which there can be no deviation. The following policy and guidelines relate specifically to the AZ Water assets of Reserve and Scholarship Funds.

II. Investment Philosophy

The AZ Water Board of Directors has established the following risk tolerance criteria for the Reserve and Scholarship Funds:

The Association's risk tolerance for both short term and long term investments is to grow conservatively and moderately, with the ability to tolerate a small loss during short term volatility.

AZ Water's Board of Directors has ultimate responsibility for the management of the Association and for achieving satisfactory investment performance. The Board has decided that this responsibility can best be met by delegating investment authority and execution to one designated member of the Budget Committee, one designated member of the Scholarship Committee and the Association Treasurer (the three-member Investment Team). The Board's investment philosophy is for the Association to exercise ordinary business care and prudence in its investment of AZ Water's assets considering the long-and short-term needs of the Association in carrying out its mission. The Board recognizes that the uncertainty of future events, volatility of investment assets, and the potential loss in purchasing power are present to some degree with all types of investments. While high levels of risk are to be avoided, the assumption of a moderate level of risk is warranted and encouraged in order to allow the opportunity to achieve satisfactory results consistent with the objectives and investment philosophy of the Association.

III. Investment Objectives.

General Objectives.

Assets of AZ Water shall be invested in a manner consistent with the exercise of ordinary care and prudence under the facts and circumstances prevailing at the time of the investment action.

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The Third Restatement of the Law: Trusts (Prudent Investor Rule) (1992) directs that a prudent person, acting in a similar capacity familiar with such matters, would use an investment of like character with like aims and with due consideration given to the tax exempt status of the Association.



1. All transactions must be undertaken for the sole interest of the Association's portfolio and its beneficiaries.
2. The assets must be invested with the safeguards to which a prudent person would adhere.
3. Investments shall be diversified so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.

Specific Objectives of the Investment Team

The Investment Team will have full discretion to make all decisions regarding the assets placed under its authority, while observing and operating within all policies, guidelines, constraints, and philosophies as set forth herein. The specific duties of the Investment Team shall include:

1. Discretionary investment management including directing the purchase and sale of investment products and altering the allocation of assets within designated guidelines.
2. Communicating in a timely manner and as soon as the information becomes available any major changes in the ongoing investment strategy, or other factors that affect the investment process or the investment objectives of the Reserve and Scholarship Funds.
3. Providing investment performance reports to the Board through the Treasurer, quarterly. Quarterly reports are to indicate performance returns for past time periods of one quarter, one year, three years, five years and since inception if applicable.
4. Meeting with the Board at least annually.
5. Collection and distribution of monthly financial statements within the Investment Team.

IV. Reserve Fund: Asset Allocation By Individual Account

The Reserve Fund shall contain two separate mutual fund accounts – a money market mutual fund (operating account) and a broadly diversified investment mutual fund containing stocks, bonds and other securities (investment account). The investment objectives will be tailored to the goals of each particular account.

1. Money Market Fund (operating account)
 - a. Fixed income securities shall be represented in the portfolio up to a maximum of 100% of the Association's operating account's market value with a minimum of 90%.

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2. Investment Mutual Fund (investment account)
 - a. Equities shall be represented in the portfolio up to a maximum of 50% of the investment account's market value with a minimum of 30%.
 - b. Fixed income securities (including preferred stocks and convertible bonds) shall be represented with a minimum of 50% and shall not exceed a maximum exposure of 70% of the Association's investment account's market value.
3. Total Reserve Fund
 - a. The Money Market Fund (operating account) shall be represented up to a maximum of 70% of the total Reserve account market value with a minimum of 50%.
 - b. The Investment Mutual Fund (investment account) shall have a minimum exposure of 30% and shall not exceed a maximum exposure of 50% of the Association's total Reserve account market value

V. Scholarship Fund: Asset Allocation By Individual Account

The Scholarship Fund shall contain two separate mutual fund accounts – a money market mutual fund (operating account) and a broadly diversified investment mutual fund containing stocks, bonds and other securities (investment account). The investment objectives will be tailored to the goals of each particular account.

1. Money Market Fund (operating account)
 - a. Fixed income securities shall be represented in the portfolio up to a maximum of 100% of the Association's operating account's market value with a minimum of 90%.
2. Investment Mutual Fund (investment account)
 - a. Equities shall be represented in the portfolio up to a maximum of 50% of the investment account's market value with a minimum of 30%.
 - b. Fixed income securities (including preferred stocks and convertible bonds) shall be represented with a minimum of 50% and shall not exceed a maximum exposure of 70% of the Association's investment account's market value.
3. Total Scholarship Fund
 - a. The Money Market Fund (operating account) shall be represented up to a maximum of 50% of the total scholarship account market value with a minimum of 30%.
 - b. The Investment Mutual Fund (investment account) shall have a minimum exposure of 50% and shall not exceed a maximum exposure of 70% of the Association's total scholarship account market value

VI. Additional Guidelines and Restrictions for Individual Accounts

Money Market Fund (operating account)



1. **Guidelines:**

- a. Fixed income assets selected for the money market fund portfolio must have a readily ascertainable market value and must be readily marketable.
- b. Bond and corporate debt obligation maturities may not exceed 12 years.
- c. Adequate diversification across the money market fund shall be maintained. The fund may not:
 - i) Invest more than 5% of the assets taken at cost in any one company. (U.S. Government guaranteed issues and its agencies are excluded from these limitations).
 - ii) Invest more than 5% of the assets taken at cost in any one issue. (U.S. Government guaranteed issues and its agencies are excluded from these limitations).

2. **Restrictions:**

- a. **U.S. Government Obligations**, including fully-guaranteed federal agencies
No restrictions.
- b. **Commercial Paper.**
 - i) Must be rated within the two highest classifications, by two rating services. (S&P, and Moody's).
 - ii) Must mature within 270 days or less from issue.
- c. **U.S. Government-sponsored Agency Obligations** (not fully guaranteed)
No restrictions.
- d. **Corporate Debt Obligations.**

Corporate debt obligations will be investment grade quality.
- e. **Cash Equivalents.**

The Board will accept investing in interest bearing money market funds, FDIC insured certificates of deposit, U.S. Treasury Bills, and other cash equivalent securities with a maturity of one year or less and a credit rating of AA or better by Moody's or S&P.

Investment Mutual Fund (investment account)

1. **Guidelines**



Investment mutual fund individual issue or individual common stock purchases shall:

- a. Be registered on a national securities exchange (excluding common stocks of insurance, banks or trust companies).
- b. Not exceed more than 5% of the outstanding common stock of any one company.
- c. Not exceed more than 5% of the investment mutual fund assets in any one corporation valued at cost.

2. **Restrictions:**

The Association does not want the investment mutual fund to invest in the following classes of securities, nor will it allow the employment of any of the following market techniques without the Board's written approval.

- a. Purchase of stocks with questionable environmental practices and/or purchase of stocks that are in conflict with AZ Water's mission
- b. Purchase private placement debt.
- c. Mortgage, pledge, hypothecate or in any manner transfer, as security for indebtedness, any securities owed or held by the Association.

VII. Administrative and Review Procedures.

A. Review of Policies.

All investment policies and investment management guidelines shall be reviewed annually by the Association's Board of Directors, or whenever circumstances change to the extent that the policies are ineffective or inappropriate. The review will be conducted in conjunction with the Investment Team

B. Review of Investment Performance.

The review of investment results will focus on adherence to investment policies and guidelines and the performance of the Investment Team and accounts.

C. Distributions.

Money Market Fund (operating account)

The operating account is used for most transactional activities. The Board has decided to keep a separate operating account with a conservative cash buffer to allow for direct funding of activities. In the event that funds are needed to supplement the operating account, the



Investment Team will contact the Treasurer to transfer monies between the investment account and the operating account accordingly.

Investment Mutual Fund (investment account)

The Investment Account will be stable in regards to few deposits and withdrawals. This account will be used most likely for the yearly deposits of individual and board contributions. Withdrawals will most likely include exchanges to the Money Market Fund for subsequent distributions or rebalancing of the portfolio policies (see above).

D. Fund Financial Goals

Reserve Fund Goal

The goal of the Reserve Fund is to grow and maintain a total account balance that is equal to or is greater than the AZ Water Board approved expenses for the annual conference and according to Board direction. Transactions will be made at the direction of the Investment Team and Board of Directors.

Scholarship Fund Goal

The goal of the Scholarship Fund is to grow and maintain a \$500,000 total account balance, and give scholarships out according to Board direction. Transactions will be made at the direction of the Investment Team and Board of Directors.

Investment Policy - Example Balances for Proposed Implementation (DRAFT)

Date Prepared: 01/08/15

	BANKING						INVESTMENTS					
	Total	Checking	Saving	General Purpose	WFP	TIQ	Historian	AZWarn	Scholarship Reserve		Association Reserve	
									Total	Operating	Investment	Total
Current Balances (2015 ending)	\$347,294	\$50,158	\$297,136	\$298,445	\$11,714	\$32,688	\$2,000	\$2,447				
Proposed Balances *	\$75,000	\$75,000	\$0	\$26,151	\$11,714	\$32,688	\$2,000	\$2,447	\$142,000	\$85,200	\$56,800	\$363,424
									\$142,000	\$142,000	\$56,800	\$363,424
									\$505,424	\$363,424	\$254,396	\$109,027

*changes are highlighted, assumes:

- (1) Chase Banking balance calculated to cover Specialties (WFP, TIQ, Historian, AZWarn) plus sufficient buffer for regular cash flows, remainder transferred to investments
- (2) initiate scholarship fund with current balance (\$142,000) - this should be the minimum starting balance
- (3) operating vs investment split as follows: Scholarship 60:40, Assn Reserve 70:30

Total funds check:

Total	AZ Water
\$580,424	Gen Purp.
\$580,424	\$389,575

Current Balances
Proposed Balances

Assn Reserve Target Calculation:

	Conference	M&G	M&G Affiliates	Program	Specialties	Total
2016 Budget Income	\$ 469,000	\$ 90,228	\$ 3,000	\$ 167,905	\$ 93,502	\$ 823,635
2016 Budget Expense	\$ 388,000	\$ 199,661	\$ 33,200	\$ 187,313	\$ 90,902	\$ 880,076
2016 Budget Net	\$ 100,000	\$ (109,433)	\$ (30,200)	\$ (19,408)	\$ 2,600	\$ (56,441)

RESERVE GOAL ASSESSMENT: (per draft proposal assumptions)

Overall	goal	% of goal
Assn Reserve	\$ 869,000	58%
Scholarship Reserve	\$ 369,000	98%
	\$ 500,000	28%