

**BOARD OF WATER AND NATURAL RESOURCES  
ACTING AS THE SOUTH DAKOTA CONSERVANCY DISTRICT**

**RESOLUTION #2018- 75 AUTHORIZING AN INVESTMENT POLICY FOR THE  
STATE REVOLVING FUND PROGRAM**

**WHEREAS**, the South Dakota Conservancy District is duly constituted as an instrumentality of the State of South Dakota exercising public and governmental functions under the operation, management and control of the Board of Water and Natural Resources of South Dakota (the "*Board of Water and Natural Resources*"), pursuant to SDCL Chapters 46A-1 and 46A-2 (the "*Act*"); and

**WHEREAS**, pursuant to the Act and the Clean Water Act (as herein defined) the District has established a state revolving fund program; (the "*Clean Water Program*"); and

**WHEREAS**, pursuant to the Act and the Drinking Water Act (as herein defined) the District has established a state revolving fund program (the "*Drinking Water Program*"); and

**WHEREAS**, pursuant to the Act, the District is authorized to issue bonds and notes and to make loans to Borrowers (as herein defined) through the purchase of municipal securities or loans in connection with the Clean Water Program and the Drinking Water Program (each a "*Program*" and collectively, the "*Programs*"); and

**WHEREAS**, to fund the Programs, the United States Environmental Protection Agency currently makes annual capitalization grants to the states on the condition that each state provide an appropriate match for such state's related revolving fund; and

**WHEREAS**, pursuant to SDCL §46A-1-60.1, the State has heretofore established the state water pollution control revolving fund program and the state drinking water revolving fund program and provided that program subfunds (each, a "*Program Subfund*" and collectively, the "*Program Subfunds*") be created within the water and environment fund established pursuant to SDCL §46A-1-60; that each Program Subfund be maintained separately; and all federal, state and other funds for use in each such Program be deposited into the related Program Subfund, including all federal grants for capitalization of each such Program, all repayments of assistance awarded from each such Program Subfund, interest on investments made on money in each such Program Subfund, proceeds of discretionary bond issues allowed by SDCL §46A-1-31 and principal and interest on loans made from each fund, that money in the Program Subfunds may be used only for purposes authorized under federal law and that the Program Subfunds may be pledged or assigned by the District and to or in trust for the holder or holders of the bonds and notes of the District as permitted by law and may be transferred to and held by a trustee or trustees pursuant to SDCL §46A-1-39; and

**WHEREAS**, SDCL §46A-1-60.2 provides that funds from the Programs therein described shall be disbursed and administered according to rules enacted by the Board of Water and Natural Resources pursuant to SDCL §46A-1-65 and the provisions of SDCL §46A-1-60 to §46A-1-60.3 inclusive and SDCL §46A-1-60.1 provides that money in the Program Subfunds may be used only for purposes authorized under federal law; and

**WHEREAS**, the District and U.S. Bank National Association (as successor Trustee to The First National Bank in Sioux Falls, the "Trustee") are parties to that certain Fifth Amended and Restated Master Trust Indenture dated as of September 1, 2010 as amended by that certain First Amendment to Fifth Amended and Restated Master Trust Indenture dated as of February 17, 2015 (as heretofore or hereafter amended or supplemented from time to time, the "*Restated Master Trust Indenture*") and the Restated Master Trust Indenture is supplemented from time to time by Series Supplemental Resolutions or supplemental indentures relating to individual Series of Bonds (as so supplemented from time to time, the "*Master Trust Indenture*"); and

**WHEREAS**, pursuant to the Restated Master Trust Indenture the District has agreed to invest funds on deposit with the Trustee (the "*Trust Funds*") only in "*Investment Obligations*" as therein defined, and the Board has heretofore determined it necessary and appropriate to adopt an Investment Policy pursuant to Resolution 2015-15 (the "*Existing Investment Policy*") to supplement the provisions of the Master Trust Indenture, various Series Resolutions and supplemental indentures and certain tax regulatory agreements related to the investment of Trust Funds; and

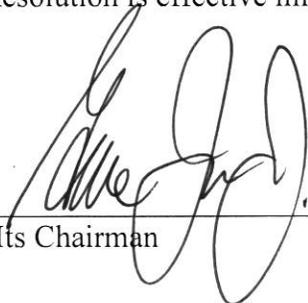
**WHEREAS**, the Board of Water and Natural Resources has now determined that it is necessary and appropriate to amend the Existing Investment Policy and has been presented a draft of such amended Investment Policy for its consideration;

**BE IT RESOLVED BY THE SOUTH DAKOTA BOARD OF WATER AND NATURAL RESOURCES, ACTING AS THE SOUTH DAKOTA CONSERVANCY DISTRICT, THAT:**

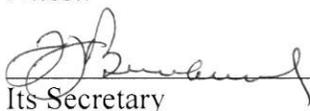
Section 1.01 Investment Policy Approved. The form of the amended Investment Policy presented to the Board is hereby approved in substantially the form on file, but with all such changes and revisions as the Chairman and Secretary may approve following any input provided by any credit rating agency in connection with the maintenance of the rating of the District's Outstanding Bonds. Such final version of the amended Investment Policy shall be filed with the Secretary of the Board.

Section 1.02 Effective Date. This Resolution is effective immediately.

Adopted: November 8, 2018.

  
\_\_\_\_\_  
Its Chairman

Attest:

  
\_\_\_\_\_  
Its Secretary

# SOUTH DAKOTA CONSERVANCY DISTRICT

## INVESTMENT POLICY

### 1. Background.

The South Dakota Conservancy District (the "***District***") and U.S. Bank National Association (as successor Trustee to The First National Bank in Sioux Falls, the "***Trustee***") are parties to that certain Fifth Amended and Restated Master Trust Indenture dated as of September 1, 2010, as amended by that certain First Amendment to Fifth Amended and Restated Master Trust Indenture dated as of February 17, 2015. The Master Trust Indenture is supplemented from time to time by Series Supplemental Resolutions or supplemental indentures relating to individual Series of Bonds or Notes (as defined in the Master Trust Indenture). The Master Trust Indenture, as so supplemented, is herein defined as the "***Indenture***." In addition, from time to time, the District has entered into or will in the future enter into tax regulatory or similar agreements with the Trustee governing various matters relating to the investment of funds on deposit with the Trustee (herein, such tax regulatory and similar agreements, as entered into and effective from time to time, the "***Tax Documents***"). Terms not defined herein shall have the meaning assigned thereto by the Indenture or Tax Documents, as applicable.

Reference is hereby made to the definition of "Investment Obligations" in the Master Trust Indenture. ***Exhibit A*** to this Policy contains a list of the Investment Obligations as set forth in the Master Trust Indenture, and if and when such term is amended, Exhibit A shall automatically be revised to conform with any such amendments. ***Exhibit B*** to this Policy contains a list of the investment agreements and other contracts (herein, the "***Investment Agreements***"), all of which qualify within clause (g) of the definition of "Investment Obligations", which have heretofore been entered into by the District or the Trustee through the date hereof, other than those which have expired prior to the date hereof. If and when the District or the Trustee enter into additional agreements described in clause (g) of the definition of "Investment Obligations", Exhibit B shall automatically be revised to conform with any such amendments.

### 2. Policy.

It is the policy of the District to invest amounts on deposit in the various Funds, Accounts and Subaccounts under the Indenture (the "***Trust Funds***") in a manner which will provide the maximum security, sufficient liquidity, and a competitive investment return to meet the daily cash flow demands of the Programs pending application of the funds to make loans or otherwise disburse funds for Program purposes. This policy must conform with all applicable laws and procedures governing the investment of public funds.

### 3. Scope.

This policy supplements the provisions of the Indenture and the Tax Documents, and in the event of a conflict between the Indenture or Tax Documents on the one hand and this Policy on the other, then the provisions of the Indenture or Tax Documents, as applicable, shall prevail.

**4. Standard of Care.**

The standard of care to be observed by the Trustee in the investment of Trust Funds shall be as specifically provided in the Indenture.

**5. Objectives.**

The primary objectives, in priority order, of the District's investment activities shall be:

*A. Safety of Principal*

Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall Trust Funds. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the Trust Funds. The District has determined that diversification will primarily be addressed by the investment of Trust Funds associated with each Series of Bonds or Notes, where feasible, in Investment Agreements.

The Trust Funds shall also be invested to control interest rate risk. Interest rate risk is the risk that the market value of investments purchased with Trust Funds will fall due to changes in interest rates. The District has determined that interest rate risk will primarily be addressed by the investment of Trust Funds associated with each Series of Bonds or Notes, where feasible, in Investment Agreements.

*B. Liquidity*

The District Program Trust Funds will remain sufficiently liquid to enable the District to meet all requirements which might be reasonably anticipated. The Trust Funds shall be invested so that securities mature to meet cash requirements for ongoing operations, including loan originations and debt service payments, thereby avoiding the need to sell securities on the open market prior to maturity except when liquidity needs require.

*C. Return on Investments*

The District's Trust Funds shall be invested with the objective of attaining a competitive rate of return commensurate with the District's investment risk constraints and the cash flow requirements of the Programs, and subject in all events to the requirements of safety of principal and liquidity outlined above.

**6. Management of Investments.**

Authority to manage the investment of Trust Funds will be at the direction of the District to the Trustee pursuant to the Indenture and this Policy.

The Trustee shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. The Trustee shall have in place procedures for: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral depository agreements, and banking services contracts.

**7. Ethics and Conflicts of Interest.**

In performance related to the investment of Trust Funds, the employees of the Trustee will follow those policies as established by the Trustee for the administration of trust funds to the extent not in conflict with the Indenture or this Policy.

**8. Certain Security Transactions.**

All security transactions, including collateral for repurchase agreements, entered into by the District shall be conducted on a delivery-versus-payment (DVP) basis. Securities may be held by a third party custodian approved by the Trustee and evidenced by safekeeping receipts if a repurchase agreement is utilized. If repurchase agreements are utilized, a Master Repurchase Agreement will be signed with the bank or dealer.

**9. Authorized and Suitable Investments.**

The District is empowered by statute to invest only in the Investment Obligations listed in Exhibit A which include the Investment Agreements listed on Exhibit B, and subject in all events to changes in law or amendments or supplements to the Indenture.

**10. Collateralization.**

In accordance with SDCL 4-6A, 51-10-9, and 52-5-20, Qualified Public Depositories will furnish collateral in the sum equal to one hundred ten percent (110%) of the public deposit accounts which exceed deposit insurance.

SDCL 4-6A-3 requires that collateral be segregated by each depository in such manner as approved by the South Dakota Public Deposit Protection Commission. Collateral may not be held in any safety deposit vault owned or controlled either directly or indirectly by the pledging financial institution but must be deposited for safekeeping in a financial institution that is a member of the Federal Reserve.

**11. Diversification.**

The District has pursued diversification of the investment of its Trust Funds primarily by selecting different Investment Agreements on a series by series basis.

The balance of funds not invested in Investment Agreements is referred to herein as the "**Remaining Balance**". Investment of the Remaining Balance is subject to the following restrictions for the purpose of achieving diversification:

- a. The Remaining Balance or, if less, 15% of the Total Trust Funds will be invested in Investment Obligations rated in one of the two highest long-term rating categories or the highest or short-term rating category by the Rating Agencies.
- b. Subject to the exception of securities issued by the U.S. Treasury or guaranteed directly or indirectly by the U.S. Government, no more than 25 percent of the aggregate of the Remaining Balance will be invested in the deposits of a single financial institution, provided, however, this limitation shall not apply to any money market fund or other investment described in clause (e) of the definition of "Investment Obligations" if such investment directly or indirectly involves solely

securities described in clauses (a) or (b) of the definition of "Investment Obligations" or is rated in one of the two-highest long-term rating categories or the highest short-term rating category by the Rating Agencies (herein, each a "*Qualified Fund*").

- c. The District will limit its investment in securities issued by government sponsored entities described in clause (c) of the definition of "Investment Obligations (a/k/a "*GSEs*")", or federally related institutions that are guaranteed directly or indirectly by, or backed by the full faith and credit of the U.S. Government to no greater than 40 percent of the total Trust Funds.
- d. Amounts credited to the Bond Fund, including any account or subaccount therein, shall only be invested in (i) Investment Agreements (if applicable), (ii) investments described in clauses (a) or (b) of the definition of "Investment Obligations", or (iii) Qualified Funds.

## **12. Maturity Constraints.**

*Maximum Maturity* — To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. The District may invest in individual securities with maturities of 5 years or less from the date of purchase, and mutual and money market funds holding securities with maturities of 5 years or less. Securities shall be redeemable at the option of the District in the open market. Mutual and money market fund investments shall be redeemable at the option of the District.

*Average Maturity* — The average dollar-weighted maturity of securities shall have a target of 1.5 years. The Trust Funds shall be reviewed by the District for rebalancing if the average maturity moves to either less than one (1) year or greater than two (2) years.

## **13. Internal Controls.**

The Trustee is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met.

## **14. Reporting.**

The investment of the Trust Funds will be managed in accordance with the parameters specified within this policy. The Trustee shall prepare investment reports as required by the Indenture.

## **15. Periodic Review.**

The Board intends to review this policy periodically.

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This Investment Policy was hereby approved and established pursuant to the authority of Resolution 2012-152 adopted by the Board of Water and Natural Resources acting as the South Dakota Conservancy District on November 8, 2012. The First Amendment to the Investment Policy was amended pursuant to the authority of Resolution 2015-15 on January 8, 2015, adopted by the Board of Water and Natural Resources acting as the South Dakota Conservancy District and made effective February 17, 2015. This Investment Policy was further amended pursuant to the authority of Resolution 2017-96 on November 9, 2017, adopted by the Board of Water and Natural Resources acting as the South Dakota Conservancy District and made effective on November 9, 2017. This Investment Policy was hereby amended pursuant to the authority of Resolution 2018-75 on November 8, 2018, adopted and made effective by the Board of Water and Natural Resources acting as the South Dakota Conservancy District.

## **Exhibit A**

### Investment Obligations as of September 30, 2018

“Investment Obligations” means and includes any of the following, if and to the extent the same are authorized as permitted investments for the District’s moneys in the Funds and Accounts created and maintained under this Indenture:

(a) Direct obligations of, or obligations the prompt payment of principal and interest on which are fully guaranteed by, the United States of America; or

(b) Bonds, debentures, notes or other evidences of indebtedness issued or fully insured or guaranteed by any agency or instrumentality of the United States of America which is backed by the full faith and credit of the United States of America; or

(c) To the extent not included within the scope of clause (b) above, such other bonds, debentures, notes or other evidences of indebtedness issued by agencies and instrumentalities of the United States government, including without limitation those issued by government sponsored enterprises such as Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation;

(d) Interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any Depository (including the Trustee), provided that such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or secured by obligations described in clauses (a) or (b) of this definition, or a combination thereof; or

(e) Money market funds or similar funds which invest exclusively in obligations described in clauses (a), (b), (f) or (g) of this definition, or a combination thereof; or

(f) Bonds, debentures, notes or other evidences of indebtedness issued by any state of the United States of America or any political subdivision thereof or any public authority or body or instrumentality therein which constitute obligations described in Section 103(a) of the Code and which are assigned a long-term rating by the Rating Agency which is no lower than the long-term rating assigned by the Rating Agency to the Outstanding Bonds (without taking into account any higher rating assigned to the Bonds by virtue of Credit Enhancement); or

(g) Any repurchase agreement or similar financial transaction with a national banking association or a bank or trust company organized under the laws of any state (including the Trustee), or with a government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement satisfies the following requirements: (1) it is secured, in the opinion of counsel, by a perfected security interest in any one or more of the securities described in clause (a) or (b); (2) provides that the collateral must be valued at least weekly and must be maintained at a value of at least 103% of the amount invested plus accrued interest

(with a no more than one-week cure period, if the value of collateral falls below this amount); (3) is entered into with a primary reporting dealer that reports to the Federal Reserve Bank of New York or one of the 100 largest United States commercial banks, as measured by domestic deposits; and (4) the securities which are the subject of the repurchase agreement must be held by the Trustee or by an agent or custodian on its behalf, provided that the requirements of clauses (3) and (4) shall apply only if and to the extent that South Dakota law so requires; or

(h) Any investment agreement, guaranteed investment contract or similar debt obligation which in the opinion of counsel is permitted by South Dakota law and the issuer or guarantor of such obligation is assigned, or such agreement, contract or obligation is assigned, the highest short-term debt rating by the Rating Agency or which is assigned a long-term rating by the Rating Agency which is no lower than the two highest long-term rating categories (without regard to numeric or other modifiers) at the time such investment is acquired or which agreement is approved by each Rating Agency then rating Outstanding Bonds as of the date the agreement is entered into by the District.

## Exhibit B

### Investment Agreements as of September 30, 2018

<u>Bond Issue</u>	<u>Provider</u>	<u>Interest Rate</u>	<u>Cap on Investment</u>	<u>Amount Invested</u>	<u>Termination Date</u>
2001&2004 <sup>(1)(2)</sup>	AIG Matched Funding Corp. (guaranteed by American International Group, Inc.)	5.07	60,000,000 <sup>(3)</sup>	\$61,457,588	8/1/25
2005 <sup>(1)(2)</sup>	AIG Matched Funding Corp. (guaranteed by American International Group, Inc.)	4.41	\$80,000,000 <sup>(3)</sup>	\$81,948,530	8/1/26

<sup>(1)</sup> Clean Water.

<sup>(2)</sup> Drinking Water.

<sup>(3)</sup> Cap solely on Revenue Fund portion of total investment.