

**MINUTES FOR MEETING OF BOARD OF DIRECTORS
OF
SAN BERNARDINO VALLEY CONSERVATION TRUST,
a California Nonprofit Public Benefit Corporation**

Wednesday, October 19, 2022 – 2:00 pm

CALL TO ORDER –2:04 p.m. (Meeting began with information items, until quorum reached)

ROLL CALL

David E. Raley, SBV Water Conservation District (District)
John Longville, SBV Water Conservation District (Arrival, 2:14 pm)
T. Milford Harrison, SBV Municipal Water District
Jim Earsom, IE Resource Conservation District (Via Zoom Arrival, 2:12 pm))

Betsy Miller, SBV Water Conservation District
Angie Quiroga, SBV Water Conservation District
Milan Mitrovich, SBV Water Conservation District
David Cosgrove, SBV Water Conservation District
Bob Stewart, SBV Water Conservation District
Matt Smith, PFM Asset Management

1. PUBLIC PARTICIPATION -None
2. APPROVAL OF MINUTES FROM JULY 20, 2022

Action: Motion was made by Vice President Longville and seconded by Director Harrison to approve the meeting minutes from July 20, 2022. The motion carried 3-0-1 with all members present voting in the affirmative.

President Raley: Yes
Vice President Longville: Yes
Director Harrison: Yes
Director Earsom: Expressed Concurrence, but Recorded As Absent

3. DESIGNATION OF BOARD OF DIRECTORS

Action: Motion was made by Vice President Longville and seconded by President Raley to re-designate David Raley and T. Milford Harrison to a subsequent three-year term of office subject to confirmation from the District and SBV Municipal Water District, respectively. The motion carried 3-0-1 with all members present voting in the affirmative.

President Raley: Yes
Vice President Longville: Yes
Director Harrison: Yes
Director Earsom: Expressed Concurrence, but Recorded As Absent

4. APPOINTMENT OF OFFICERS

Appointment of Executive Director/Secretary held for Item 5 of agenda.

Action: Motion was made by Director Harrison and seconded by Vice President Longville to re-appoint David Raley as President and John Longville as Vice President for another term. The motion carried 3-0-1 with all members present voting in the affirmative.

President Raley: Yes

Vice President Longville: Yes

Director Harrison: Yes

Director Earsom: Expressed Concurrence, but Recorded As Absent

5. DESIGNATE NEW EXECUTIVE OFFICER/SECRETARY

Action: Motion was made by Vice President Longville and seconded by President Raley to appoint Milan Mitrovich as the new Executive Officer/Secretary of the Trust. The motion carried 3-0-1 with all members present voting in the affirmative.

President Raley: Yes

Vice President Longville: Yes

Director Harrison: Yes

Director Earsom: Expressed Concurrence, but Recorded As Absent

6. PFM ASSET MANAGEMENT PRESENTATION

This informational item was taken out of order due to not having a quorum at start of meeting.

Matt Smith, CFA, Managing Consultant with PFM Asset Management provided a market overview and discussed performance of investments specific to the Trust's portfolio. He stated we are seeing a dismal start to the year after a strong 2020 and 2021. Inflation is what is driving the negative performance this year in the equity and fixed income markets. There is significant concern to the federal reserve and investors, both domestically and globally, as inflation continues to stay high. The labor market remains strong. If unemployment picks up, then we expect inflation to follow suit. Consumer Sentiment Index has been coming down most of the year and shows the consumer is in a wait and see position to see if inflation will come down materially or if inflation will stay high for a longer period. The Federal Reserve utilizes two main tools to fight inflation. They are the Federal Funds Rate and the Assets of the Federal Reserve. By raising rates, they can tighten the balance sheet. Mr. Smith reviewed US Treasury yields and equities. He stated it is a good time to buy. He reviewed the market indices PFM focuses on which are the Russell 3000 Index in Domestic Equities, MSCI AC World ex USA in International Equities, Bloomberg U.S. Aggregate in Fixed Income and the FTSE NAREIT Equity REIT Index and Bloomberg Commodity Index Total Return in Alternatives. Generally, when we see equities going down, we can rely on fixed income to keep us afloat. Unfortunately, with this imperfect storm we are experiencing so far this year with the Federal Reserve rapidly raising rates to try and keep inflation in check, that has not been the case.

President Raley inquired as to the Trust's portfolio allocation. Mr. Smith confirmed it is still a 70% equity/30% fixed income allocation with some room within the Trust's Investment Policy to be slightly out of that range. He provided a slide showing Trust's allocation through September 30, 2022. He stated he and Betsy Miller have discussed and intend to have PFM re-run the Asset Allocation Model towards the end of the year to determine if the 70/30 split is still the recommended allocation going forward based on potential changes in cashflows. Mr. Smith reviewed the Trust's performance through September 30th with an ending balance of roughly \$2.75 million stating it is down 6.25% for the quarter below the -5.81% benchmark so PFM has slightly underperformed. Year-to-date the portfolio is down 23.14% below the -22.05 benchmark. Since PFM took management of the portfolio in June 2018, an overall positive return of 3.75% has been earned above the 3.49% benchmark. International equities have been the leader in negative annual returns. It is a bleak year-to-date but with some exposure to commodities, which are up about 5% for the quarter and 10% since being added to the portfolio about a year ago, we were able to offset some losses.

Mr. Smith finished his presentation by discussing some recent PFM Investment Committee decisions made on behalf of the Trust's portfolio for the 3rd quarter which took place in August. Prior to that, however, a rather big decision was made in May in which we took on about a 9% cash position. This decision was in light of what we thought to be further room to fall in the equity market. So, we reduced your allocation to both domestic and international stocks as shown in a previous slide. Since then, we have decreased that cash position to about 2 ½% because we believe inflation has peaked and so we do want to be there when the market recovers. We are waiting on a little more data that would tell that story though before we reinvest that remaining 2 ½% of cash.

President Raley inquired what effect inflation has on PFM's decision in reference to cash when inflation is at 8%. Mr. Smith responded that when inflation is at 8%, relatively, cash is going to be down 8%. However, when domestic equities are down 18% for the year and international equities are down nearly 29%, we would take that -8% relative to -29% in a portfolio. Unfortunately, in this market, there is not enough conviction to go all in to commodities which is the only investment showing some positive returns. It is really the concept of de-risking your portfolio so when the future does look a little bit brighter, we can use that cash to try and gain on the upside as we recover. This item was received and filed.

7. FINANCIAL STATUS UPDATE

Angie Quiroga provided the financial status update for the first quarter directing the Board to package pages 13 and 14. She noted revenue to date is only from investment income recognizing both negative realized and unrealized losses due to volatility in the market and high inflation. Expenses are minimal for the first quarter primarily just bank fees. Accounts receivable remains unchanged. Liability to the District increased \$77,105 for expenses from July through September bringing total liability to approximately \$2.2 million. This liability will be reduced by \$30,331 upon receipt of reimbursed state permitting fees. Two additional deposits of \$1,500 are expected before releasing the total liability of \$18,500 to the NHCPC since they have received their non-status determination. Mitigation deposit balance is \$182,968. Betsy Miller added that she and Mrs. Quiroga have been reviewing the liability expenses to the District. Some items have been completed and can be paid back to the District. However, in discussion with our investment manager PFM Asset Management and the auditors, they have advised that due to current unrealized investment losses, now is not a good time to move funds. We have worked with the auditors to develop an appropriate reporting mechanism to record the processes that have been

completed and can be paid back but to hold the funds at this time until our investment manager recommends otherwise. This item was received and filed.

8. COMMUNITY MITIGATION UPDATE

Milan Mitrovich stated we are currently focusing on the mitigation needs for the San Bernardino County Transportation Authority tied to the State Route 210 Mixed Flow Lane Addition project. Ongoing communication between SBCTA, their environmental consultant VCS and CDFW is being had regarding the ability of the Trust to hold a conservation easement and long-term endowment for management of 4.2 acres of District-owned and managed lands set aside for this project's mitigation needs. A flow chart of the progression-to-date and remaining steps was provided. Most recently a long-term management plan was completed and also a property analysis record to understand the cost of managing these 4.2 acres in perpetuity. These items have been provided to CDFW for their review and approval. We are working with VCS and SBCTA to meet their deadline by December 13th in terms of approval by CDFW so we can ultimately record the conservation easement and deposit the endowment with the Trust.

Mr. Mitrovich stated we are also working on an Elder Creek Channel Improvement Project in support of San Bernardino County Flood Control District. We are looking at setting aside 1.05 acres of mitigation land also owned and managed by the District for this community mitigation project. The Trust would hold and manage the conservation easement and the funds tied to the long-term management plan of this land. We are working on the long-term management plan and property analysis record for this project as well. This item was received and filed.

9. DR HORTON TRESPASS UPDATE

David Cosgrove stated, as the District's legal counsel, he emailed the DR Horton representatives. A tentative settlement agreement was previously made between the District and DR Horton on the illegal trespassing. DR Horton then communicated that they had pause with respect to the negotiated settlement. District counsel sent them an email in July to follow-up and expressed in terms of speed and cost of resolution, this agreement was probably their best option. As of today, we have not heard back. USFWS, who is overseeing this has communicated with the District and asked for the current states. District counsel sent another email to DR Horton, approximately a week ago, notifying them that USFWS wants resolution. If they don't want the former agreement, it is time we will have to respond to USFWS and refer to their enforcement. We have not heard back from that email either. As it stands, the District will probably have to respond to USFWS that we do not have a successful resolution. The District predicts USFWS will impose on DR Horton resolution at a significantly higher cost. Discussion ensued. This item was received and filed.

10. ADJOURN MEETING – 2:42 pm.

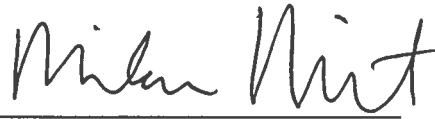
Action: A motion was made by Vice President Longville and seconded by Director Harrison to adjourn the meeting. The next Board of Director's meeting will be held on Wednesday, January 18, 2023, at 2:00 pm at 1630 W. Redlands Blvd., Redlands, CA or via teleconference and Zoom. The motion carried 3-0-1 with Vice President Longville noted absent from the vote.

President Raley: Yes

Vice President Longville: Yes

Director Harrison: Yes

Director Earsom: Expressed Concurrence, but Recorded As Absent

A handwritten signature in black ink, appearing to read "Milan Mitrovich". The signature is fluid and cursive, with the first name "Milan" and last name "Mitrovich" clearly distinguishable.

Milan Mitrovich
Executive Officer/Secretary