



# PURE CYCLE CORPORATION

## Investment Policy

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### PURPOSE

Pure Cycle Corporation ("Company") has a fiduciary obligation to its shareholders for the funds it collects and invests. Investment of surplus corporate funds will only be made within parameters approved by the policies outlined in this Investment Policy unless otherwise approved by the board of directors ("Board") of the Company.

The overriding objective of this Investment Policy is to achieve maximum yields on invested funds while protecting principal. In addition, surplus funds will be invested to ensure that cash flow requirements are met, including a contingency for unanticipated items.

The Chief Financial Officer and President of the Company have been delegated, by the Board, with the authority and responsibility for the management of cash funds of the Company through investments that must be carried out within the following guidelines:

### POLICY STATEMENT

Optimum utilization of Company cash assets consistent with the guidelines established in this Investment Policy is a primary objective of the Company's financial management. While the investment of surplus cash is not the principal activity of the Company, excess funds may be available during various periods. The objective of this Investment Policy is to maximize the return on cash balances while operating within established limitations which will minimize the risk of financial (principal) loss.

A matter of primary importance in determining the application of excess cash is ensuring that funds will be available to meet cash requirements as dictated by the ongoing operational needs of the business. An additional consideration in the management of cash balances is the alternative uses of cash (i.e., early payment of accounts to utilize discounts, etc.). It is the position of the Company that decisions regarding alternative uses of cash outside of use for normal ongoing operations, will be evaluated individually as to the economic benefit to the Company.

### INVESTMENT GUIDELINES AND COMPANY POLICY

The guidelines set forth below establish the types of investments that are acceptable for the temporary investment of funds also the limitations on the amount of any one and/or aggregate of these investments that may be held at any point in time. All checking accounts which are not interest bearing shall serve only as temporary means until transfers to interest bearing accounts can be made.

- A. GENERAL. Unless otherwise approved by the Board, (i) all investments of the Company's managed funds must fall within one of the following approved categories and (ii) no more than 10% of the total managed funds shall have a remaining maturity exceeding two years. Any material deviation from these guidelines and policies must be approved by the Board.
- B. U.S. GOVERNMENT AND FEDERAL AGENCY SECURITIES. Investments in U.S. government and federal agency securities are permitted and can comprise any amount of the managed funds.
- C. COMMERCIAL PAPER/CORPORATE BONDS AND NOTES/ASSET BACKED SECURITIES. Investments in commercial paper, corporate debt securities and asset backed securities are permitted, provided they hold a rating of A1/P1/AAA or better, and may comprise any amount of the managed funds.
- D. REPURCHASE AGREEMENTS. Bank repurchase agreements ("Repo") are eligible investments provided the banks rating is AA or the equivalent and the Repo is collateralized by U.S. Government obligations. The Repo holding period must be 60 days or less and the outstanding Repos cannot constitute more than 25% of the managed funds without prior approval from the Board.
- E. NEGOTIABLE CERTIFICATES OF DEPOSIT ("CD"). Negotiable CDs are eligible investments provided the banks rating is AA or the equivalent, mature in two years or less and no more than \$1,000,000 may be maintained with a single financial institution. The investments in CDs cannot constitute more than 75% of the managed funds; provided, however that up to 100% of the managed funds may be invested in CDs if all such CDs are insured for the entire amount invested in such CDs.
- F. MONEY MARKET FUNDS. Money market funds are eligible investments and can comprise any amount of the total managed funds.
- G. INSURED CASH SWEEP® ("ICS") AND CERTIFICATE OF DEPOSIT REGISTRY SERVICE® ("CDARS") PROGRAMS. Investments in the ICS and CDARS programs (or the programs that replaced these so long as they are insured) by design are fully insured by the FDIC and are eligible investments that can comprise any amount of the total managed funds.
- H. EXCHANGE TRADED FUNDS ("ETF"). ETFs are eligible investments, provided the ETFs only invest in one or more of the eligible investments described above. Investments in ETFs are subject to the same limitations described for the underlying investments; provided, however, that the dollar limit for CDs maintained at a single financial institution does not apply to an ETF invested in CDs.
- I. INDEX FUNDS. Index funds are not eligible investments due to the potential volatility and loss of principal. Any donations of index funds from external parties will be liquidated at the best possible price within one year of the donation, with the funds generated being invested pursuant to this policy.
- J. MUTUAL FUNDS. Mutual funds are eligible investments, provided the mutual funds invest only in U.S. governmental and federal agency securities. Otherwise, mutual

funds are not eligible investments due to the potential volatility and loss of principal. Any donations of mutual funds from external parties that do not qualify as eligible investments will be liquidated at the best possible price within one year of the donation, with the funds generated being invested pursuant to this policy.

- K. STOCKS. Stocks are not eligible investments due to the potential volatility and loss of principal. Any donations of stock from external parties will be liquidated at the best possible price within one year of the donation, with the funds generated being invested pursuant to this policy. This does not apply to any joint ventures, partnerships, business mergers or acquisitions, or similar business structures the Company may pursue.
- L. OTHER CONSIDERATIONS. Active trading of investments is not permitted. However, should an opportunity allow for an enhancement in yield among similar securities and maturities, then such trade would be encouraged and can be authorized by the Board.

Investment of funds with related parties, as defined by the Securities and Exchange Commission, are not permitted without the prior approval of the Audit Committee of the Board.

- M. INTERNAL CONTROLS OVER INVESTMENT ASSETS. All Company owned negotiable instruments must be held at high credit-quality financial institutions (location ultimately to be decided by management). No transactions (wire transfers, checks, etc.) to or from third parties will be permitted directly with accounts holding investments. All transfer of funds in or out of investment account(s) must be transacted through the Company's operating account and are subject to the Company's internal controls over cash receipts and disbursements as described in the Company's policies and procedures.

The investment account(s) must be reconciled at least monthly in accordance with the Company's internal control policies and procedures.

The Board will review this Investment Policy and discuss the Company's investment strategies, returns, and policies at least annually.