

# Apex Income Fund

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## Executive Overview

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In today's investment environment, it is rare to find an alternative investment that is reliable, relatively easy to understand, and offers exceptional long-term returns with low risk.

Since our founding 50 years ago, **Refund Contracts** have never defaulted. How many other investments have that track record?

The reason no default has occurred is because all of the characteristics of a good investment are present:

**Credit Risk:** Water Companies are regulated utilities with approved profit margins built into their rate structure. It is in the public interest for water companies to operate profitably in order to deliver water to their customers, and the California Public Utilities Commission acts as a consumer advocate in negotiating tariff rate structures that balance the public interest while insuring that water companies remain profitable. Water Companies can neither make too much or too little profit. Excess profits are returned to customers as rebates while insufficient revenues result in a profitability surcharge to customers.

**No Competition:** Water Companies are allowed to operate within their service boundary free from competition.

**Corporate Debt Obligation:** Refund Contracts are corporate debt obligations, listed as long-term liabilities, advances for construction, on the water company balance sheet.

**Uniform Structure:** All Refund Contracts in California are governed by Rule 15 of the California Public Utilities Commission, and therefore all Refund Contracts in California have the similar payment terms. The Refundable Balance is paid over 40 years with fixed annual payments, until paid in full.

**Invest With Confidence:** Refund Contracts are priced as discounted future cash flows:

<b>Investment (Price Paid)</b>		<b>\$94,633</b>	<b>\$107,468</b>	<b>\$113,145</b>
Annual Payment You Receive		\$10,000	\$10,000	\$10,000
X Number Of Years (Term)		20	30	40
= Total Payments		\$200,000	\$300,000	\$400,000
Profit Over Term		\$105,367	\$192,532	\$286,855

This illustration compares the price difference for Refund Contracts at an 8.50% yield with fixed annual payments of \$10,000 and terms of 20, 30 and 40 years. Individual Refund Contract prices vary according to the unrefunded balance, fixed annual payment amount and remaining term.

## **Apex Income Fund Affiliate: Neptune Investment Company**

**Neptune Investment Company's** business is buying and selling Refund Contracts as a broker. Neptune Investment Company has been continuously in business since 1974.

**Apex Income Fund** offers a pooled investment vehicle for investors seeking a shorter term investment of 3 or 5 years paying 8.0% and 8.5% respectively. Apex Income Fund earns a 9.0% yield on its investments by purchasing Refund Contracts from Neptune Investment Company.

## **Liquidity**

Investors that wish to sell their Refund Contracts are free to do so at any time. Neptune Investment Company can facilitate the sale of Refund Contracts providing a means of liquidity. We typically charge a fee of 3% - 5% on the sale price to place the Refund Contracts with a different investor. Timing is about 30 days to close the transfer transaction.

## **How Refund Contracts Are Originated**

When real estate developers build new projects, one of the project costs is the extension of water mains, which are the water pipes laying beneath the streets. In many areas in California, the water company must refund the developers cost for the water mains.

A Water Main Extension Contract or "**Refund Contract**" is entered into between the Water Company and the real estate developer who needs additional water services extended for their project.

**Rule 15** of the California Public Utilities Commission governs developer advances for Water Company main extensions and establishes the rules for the repayment by the Water Company to the developer.

The Refund Contract includes the following key terms:

- The developer advances all of the funds needed by the Water Company to pay for the cost of the water facilities, that may include water mains, which are the pipes lying in the streets, and special facilities such as wells, tanks and pumps for larger projects.
- The Water Company installs the water infrastructure, and retains ownership of the facilities.
- Rule 15 requires the Water Company refund the developers cost "**Refund Contract**" through annual payments over a period not to exceed 40 years. While Refund Contracts start out with a 40 year term, remaining terms at the time of purchase vary, generally between 25 – 40 years remaining term.

## **Who Buys Refund Contracts?**

Investors that purchase Refund Contracts include:

- Individuals
- Family Trusts
- Foundations
- Family Offices
- IRA, 401K, pension and profit sharing plans, defined benefit plans.
- Pension Trust Funds
- Insurance Companies.

### **Ownership Title and Payments**

Refund Contracts are transferred by an assignment document and the transaction occurs through escrow. A Refund Contract purchaser receives a fully executed original assignment directly from the Water Company, acknowledging the transfer, and stating the address where the Water Company will send the annual payments. The owner receives their annual payment directly from the Water Company.

### **Summary**

Apex Income Fund will hold Refund Contracts of the “A” rated companies, which is a CPUC rating scale for the largest Water Companies operating in the State of California. There are only 9 Water Companies operating in California that are Class A companies. At a minimum, the Class A Water Companies serve entire cities or substantial portions thereof. Most are in numerous markets and several are National in scope. Most Class A Water Companies are publicly traded Water Companies. Together, the 9 Class A Water Companies have approximately 1.5 million customer accounts in California, serving approximately 6 million persons or approximately 15% of the State.

Class A Water Companies have never defaulted on Refund Contract obligations in any respect whatsoever, which knowledge extends to the early 1970’s.

Apex Income Fund may purchase Arizona Water Companies Refund Contracts on a limited basis.

Water Companies are afforded exclusive operations within their tariff boundaries – no competitors and a captive market. Water is a necessary resource. The CPUC sets Water Company Authorized Profit Margins. Therefore, Water Companies operate as an authorized monopoly providing reliable safe drinking water to their customers while earning their approved profit margins.

### **About Neptune Investment Company**

Neptune Investment Company has been active for 50 years and has transacted more than 5,000 Refund Contracts during our history.

# CALIFORNIA PUBLIC UTILITIES COMMISSION



## REGULATED WATER UTILITIES

(From 2018 Annual Reports)

### CLASS A

Utility	Active	Inactive	Total
California Water Service Company	524,696	0	524,696
California-American Water Company	192,374	0	192,374
Golden State Water Company	260,055	0	260,055
Great Oaks Water Company	21,643	0	21,643
Liberty Utilities (Apple Valley Ranchos)	23,484	0	23,484
Liberty Utilities (Park Water)	29,375	0	29,375
San Gabriel Valley Water Company	105,649	0	105,649
San Jose Water Company	226,265	0	226,265
Suburban Water Systems *2017 AR*	76,251	0	76,251
<b>Total Class A</b>	<b>1,459,792</b>	<b>0</b>	<b>1,459,792</b>

## California Class A Water Company Financial Summary

2024

Water Company / Parent	Accounts	Revenue	Stock Symbol
<b>California-American Water Company</b> California American Water Company is the California subsidiary of <b>American Water Works</b> which has annual revenues of \$4.5bn, and serves 15 million persons accroess many states in the US. Serving Chula Vista, Humbolt, Los Angeles, Monterey, Placer, Sacramento, San Diego, San Mateo, Santa Cruz, Sonoma & Ventura Counties, CA	186,693	\$299,474,923	AWK on NYSE
<b>California Water Service Company</b> Its parent, <b>California Water Service Group</b> provides water and water facility management services to approximately 2 million people in 27 different major service areas in California. Serving Alameda, Butte, Fresno, Glenn, Kern, Lake, Los Angeles, Monterey, San Joaquin, San Jose, San Mateo, Santa Clara, Solano, Sonoma, Tulare, Ventura & Yuba Counties, CA	477,760	\$720,576,823	CWT on NYSE
<b>Golden State Water Company</b> Note: The parent company American States Water has annual revenues of \$3.2B. Ticker Symbol : AWR Serving Arden Cordova, Bay Point, Clearlake, Los Osos, Ojai, Santa Maria, Simi Valley, Central Basin East and West, Culver City, Southwest, Claremont, San Dimas, San Gabriel Valley, Apple Valley, Barstow, Calipatria, Morongo, Los Alamitos and Placentia	264,226	\$430,720,082	AWR on NYSE
<b>Great Oaks Water Company</b> Serving Southern San Jose, CA	21,792	\$23,224,568	N/A Private
<b>Liberty Utilities</b> is a subsidiary of <b>Algonquin Power &amp; Utilities Corp.</b> , a Canadian public company operating across North America. It has annual revenues of \$1.6bn.			AQN on NYSE
<b>Liberty Utilities - Apple Valley Ranchos Water Company</b> Serving Apple Valley, CA	21,558	\$30,998,421	
<b>Liberty Utilities (Park Water Company Inc.)</b> Serving Downey, CA	28,372	\$40,993,900	
<b>San Gabriel Valley Water Company</b> Serving El Monte, CA and Fontana, CA	97,141	\$182,977,599	N/A Private
<b>San Jose Water Corporation</b> Serving over 1 million persons in greater San Jose, CA	236,298	\$470,374,781	SJW on ASE
<b>Suburban Water Company</b> (Serving Covina, CA) A Subsidiary of <b>Southwest Water Company</b> (formerly SWWC on NASDAQ before going private) now operates 35 affiliate utility companies across 10 states. In April 2024, Corix Infrastructure (U.S.), Inc. and SouthWest Water Company Complete Merger to form <b>NEXUS WATER GROUP</b> .	76,251	\$92,327,491	N/A Private